

FINANCIAL TIMES

Moving
out of
office



Marketing music
From compact
disc to hard disc

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Eurofrigate
Different visions
of the Horizon

Bernard Gray, Page 13

Glamour stocks
Why floating is
fashionable

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Today's surveys
Japanese Finance
Investing in South Africa

Separate sections

Moscow 'adjusted figures' to improve economic forecast

Russian statisticians manipulated figures to give the impression that the economy was growing, a group of influential independent economists says. Kremlin statisticians boosted their estimate of the size of the hidden economy for this year, but left the 1996 figures, which they were using as a basis for comparison, unchanged. They should have come up with a decline of about 6 per cent in GDP in January, the economists say, instead of the much trumpeted slight increase. Page 14

Israel seeks US mediation: Israel is looking to the US to save the Middle East peace process from collapse after Israeli troops and Palestinians clashed for a third day in the West Bank towns of Bethlehem and Hebron. Page 14

Suez and Lyonnaise poised for merger: Shares in Suez and Lyonnaise des Eaux fluctuated on signs that the two French groups were close to deciding on a merger which would create a company primarily utilities services to governments around the world. Page 15

NZ seeks cut in EU butter duties: New Zealand asked the World Trade Organisation to overturn high European Union duties on butter which spreads when cold. The EU claims the product's manufacturing process does not convert cream directly into butter. Page 14

Clinton set for budget concessions: US president Bill Clinton is prepared to drop some of his plans for tax cuts in an effort to reach agreement with the Republican-controlled Congress to balance the federal budget. Page 6

Lehman ahead in buoyant market: Wall Street's rising quarterly earnings continued into 1997, according to results from US investment bank Lehman Brothers, but the possibility of a US interest rate increase has damped predictions for the rest of the year. Page 15

Kirch seeks \$500m loan: German media company KirchGroup confirmed that it was negotiating with banks over a large-scale loan, believed to be in the region of DM1bn (\$500m). Page 15; Observer, Page 13; Lex, Page 14

Call for reform of EU aid funds: The European Union's structural funds, which are used to aid poorer areas, should be simplified, and member states given a bigger role in implementing them, social affairs commissioner Padraig Flynn said. Page 2

Pérez returns to politics: Ex-Venezuelan president Carlos Andrés Pérez, who survived two coup attempts but was impeached in 1993, returned to Venezuela's political arena as head of a movement he claims is seeking to rescue a discredited political system. Page 6

Bre-X defends size of gold deposit: Canadian exploration company Bre-X Minerals rejected doubts about the size of what it claims to be the world's largest gold deposit and said it had "absolute confidence" in the assay results from the Indonesian site. Page 15

Mexico seeks more power stations: Mexico is to grant four concessions to build and lease power stations and will sell minority stakes in its petrochemical industry. Page 4

Big Russian companies criticised: Russia's 100 biggest companies have "extremely serious problems of corporate governance" and many have flouted shareholders' rights, a study shows. Page 2

Thrall to revive UK wagon buildings: US rail wagon maker Thrall Car Manufacturing Company plans to revive wagon building in the UK by opening a works to make 2,500 wagons over five years. Page 10

Thais forced to save: A compulsory savings scheme for government and private-sector employees will begin to prop up Thailand's battered financial markets this week. Page 8

Spain lifts Lomé block from S Africa: Spain lifted its block on South Africa's partial membership of the Lomé Convention, which links the European Union with African, Caribbean and Pacific countries. Page 4

VERIL raises \$448m: Vidish Sanchar Nigam, India's sole provider of international telecommunications, raised an initial \$448m in the country's largest international equity issue. Page 15

FT.com: the FT web site provides online news, comment and analysis at <http://www.ft.com>

STOCK MARKET INDICES

New York: Dow Jones Ind	5,802.30	(-1.89)
NASDAQ Composite	1,238.57	(-15.40)
London: FTSE 100	2,578.28	(-7.85)
Frankfurt: DAX	3,221.84	(-23.80)
Paris: CAC 40	3,214.8	(-40.0)
Hong Kong: Hang Seng	10,043.82	(-589.34)

US LUNCHTIME RATES

Federal Funds	5.5%
3-Month T-bill	5.5%
Long Bond	5.5%
Yield	5.5%

OTHER RATES

UK 3-month interbank	5.5%	(5.5%)
UK 10 yr Gilt	5.5%	(5.5%)
France: 10 yr OAT	5.5%	(5.5%)
Germany: 10 yr Bund	5.5%	(5.5%)
Japan: 10 yr JGB	5.5%	(5.5%)

NORTH SEA OIL (Average)

Brent Oil	\$18.92	(18.95)
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COMMODITIES

Gold: London	\$350.5	(\$351.75)
Crude Oil: WTI	\$18.92	(18.95)
Natural Gas: Henry Hub	\$1.82	(1.83)
Copper: LME	\$1.82	(1.83)
Aluminum: LME	\$1.82	(1.83)
Zinc: LME	\$1.82	(1.83)
Lead: LME	\$1.82	(1.83)
Nickel: LME	\$1.82	(1.83)
Silver: COMEX	\$1.82	(1.83)
Platinum: COMEX	\$1.82	(1.83)
Palladium: COMEX	\$1.82	(1.83)
Rhodium: COMEX	\$1.82	(1.83)
Iridium: COMEX	\$1.82	(1.83)
Osmium: COMEX	\$1.82	(1.83)
Ruthenium: COMEX	\$1.82	(1.83)
Technetium: COMEX	\$1.82	(1.83)
Yttrium: COMEX	\$1.82	(1.83)
Zirconium: COMEX	\$1.82	(1.83)
Niobium: COMEX	\$1.82	(1.83)
Molybdenum: COMEX	\$1.82	(1.83)
Technetium: COMEX	\$1.82	(1.83)
Ruthenium: COMEX	\$1.82	(1.83)
Rhodium: COMEX	\$1.82	(1.83)
Palladium: COMEX	\$1.82	(1.83)
Platinum: COMEX	\$1.82	(1.83)
Gold: COMEX	\$1.82	(1.83)

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Companies are to press ahead with talks on joint steel company

Krupp drops bid for Thyssen

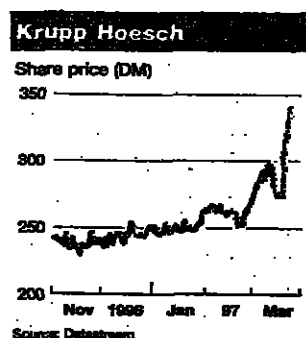
By Peter Norman in Bonn

Krupp Hoesch, the German steel and engineering group, last night unexpectedly dropped its bid for its larger rival Thyssen and agreed instead to press ahead with talks to form a joint steel company.

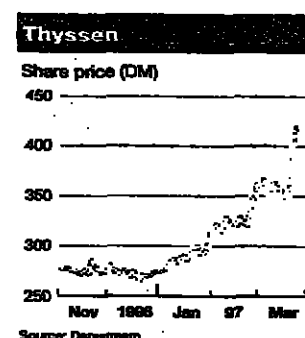
In a statement, signed by the two companies' chief executives and Mr Wolfgang Clement, the economics minister of North Rhine-Westphalia, Krupp pledged not to make any future bid for Thyssen.

The two companies, which have overlapping interests in distribution and auto parts manufacture as well as a joint stainless steel subsidiary, said they would study the possibility of co-operation in areas other than steel.

In the meantime, they said the talks on merging their carbon steel interests were "progressing well" and that the planned joint company would



Source: Dataquest



Source: Dataquest

enhance Germany's visibility as a base for steelmaking.

The future joint steel company will provide Mr Gerhard Cromme, Krupp's chief executive, with about 75 per cent of the synergies worth an estimated DM1bn (\$500m) a year he hoped to realise by the full bid for Thyssen. But Mr Dieter Vogel, Thyssen chief executive, has said his company will be the dominant partner because it is the larger.

The two-paragraph statement marked the end of a highly unusual and dramatic offer which valued Thyssen at DM13.6bn and caused widespread concern that Anglo-Saxon style hostile bids might become part of the German financial scene.

The news last week that Krupp would bid DM435 in cash for each Thyssen share - and that the offer was to be financed by borrowing -

caused outrage among politicians from both left and right. It also triggered widespread condemnation of the banks supporting Krupp and brought workers from both companies on to the streets protesting against possible job losses.

Although the Krupp bid was put on ice until next Thursday after the North Rhine-Westphalian government persuaded the two companies to discuss merging their steel interests, the anger persisted.

About 1,000 steelworkers demonstrated outside the Deutsche Bank in Düsseldorf yesterday and more than 30,000 Thyssen workers are expected to demonstrate in Frankfurt today at the headquarters of Deutsche Bank, which advised Krupp alongside Dresdner Bank and Goldman Sachs of the US.

The speed of last night's announcement came as a surprise because Krupp had set the Thursday deadline to

establish whether a joint steel company would be feasible. Moreover, shortly before the breakthrough, Thyssen had issued a strongly-worded statement appearing to mark the start of its defence against the planned hostile bid.

It claimed the bid would result in a company with a "very risky" financial structure, with an equity capital of only DM3bn and liabilities of DM48bn.

Backers of the Krupp bid yesterday dismissed suggestions that doubts among Germany's conservative banking community had prompted Krupp to abandon the bid.

They added that Mr Cromme's move had done more to produce a rationalisation of the two groups' interests in two weeks than talks over the past two decades.

Editorial Comment, Page 13; Lex, Page 14; Steelworkers turn heat on banks, Page 16

S Korea reopens probe into Hanbo scandal

By Jack Burton in Seoul

South Korean prosecutors have reopened an investigation into the Hanbo loan scandal that threatens to undermine further the government of President Kim Young-sam and exacerbate the nation's economic woes.

At the centre of the investigation are fresh allegations that the president's son, Mr Kim Hyun-chul, received \$225m in rebates on the purchase of equipment supplied by a German company for Hanbo's giant steel mill.

The Hanbo group collapsed in January under debts of nearly \$6bn associated with the construction of the world's sixth largest steel mill. Ten senior government officials and businessmen have gone on trial for allegedly pressuring banks to lend to Hanbo in return for kickbacks.

Prosecutors this week are expected to question executives from Hanbo's main creditor banks and senior government officials about their involvement in arranging loans for the failed steel group without securing sufficient collateral.

There are also worries that renewed investigation of the banks will cause them to reduce lending and create a credit squeeze, while harming their ability to borrow overseas at competitive rates.

The recent collapse of the Hanbo and Sammi steel groups has led to the downgrading of credit ratings for several Korean banks, raising the cost of foreign borrowing.

The central bank yesterday provided \$1bn in low-interest emergency funds to seven banks that have had difficulty in borrowing overseas. Bank presidents rejected suggestions that some large banks were in danger of collapse.

The prosecutors' renewed probe of Hanbo comes after widespread criticism that an initial investigation was hasty and inadequate - the chief prosecutor in the case was sacked on Friday. There

Continued on Page 14

'War games' rumours hit Taiwan shares

Chinese exercises may cloud Gore visit

By Laura Tyson in Taipei and Tony Walker in Beijing

Taiwanese share prices fell 3.5 per cent yesterday after media reports that China would hold military exercises near the island, possibly to protest against the visit by the Dalai Lama, Tibet's exiled spiritual leader.

The reports threatened to overshadow the visit to Beijing of Mr Al Gore, the US vice-president, who arrived last night on a mission to strengthen Sino-US relations.

Mr Gore's visit, the highest level US mission to Beijing since the Tiananmen Square massacre of 1989, is aimed at preparing the ground for a summit meeting between Presidents Bill Clinton and Jiang Zemin, scheduled for this year.

It takes place amid allegations that China sought to influence US policy by making donations to the Democratic party for the presidential election. China has denied the allegations and accused Taiwan of spreading rumours.

In an unconfirmed report, The United Daily News of Taiwan quoted military intelligence sources as saying China planned manoeuvres in coastal

Fujian, Guangdong and Zhejiang provinces in April.

The report brought echoes of the loss of confidence wrought by last year's missile tests in the Taiwan Strait but Fujian government officials said they were unaware of any plans.

China periodically holds "war games" on its southern coast adjacent to Taiwan to remind the Taiwanese of the risks of defying mainland reunification calls. China regards Taiwan as a renegade province and has not ruled out

force to secure its return.

The Dalai Lama, on his first visit to Taiwan, sought to allay Beijing's suspicions that he was making common cause with the Taiwanese leadership against China.

"I always consider that a close understanding between Tibet and the Chinese is extremely important," the Dalai Lama said. "This visit can be very helpful to remove the feeling of distance between one another."

Mr Gore said in Tokyo on his way to Beijing he would raise the political funding

issue with China "in an appropriate way and in the proper context", but added "this is not what this trip is about".

People's Daily, the Communist party newspaper, said: "The Chinese government is not involved in the so-called political contributions scandal in the slightest way and is entirely free of guilt."

William Dawkins in Tokyo added: Mr Gore completed the first stage of his three-nation Asian tour yesterday by swearing continued support for the US-Japan security alliance.

Ending his two-day visit to Japan, Mr Gore said: "This would be the very worst time to have some reduction in the level of American forces here." The continuing presence of 100,000 US troops in south-east Asia - of which nearly half are in Japan - was essential for regional security, he said.

His remark gives moral support to the Tokyo government as it begins difficult negotiations with local authorities in Okinawa, the southern Japanese island, to renew leases for the largest US base in south-east Asia. The leases are due to expire in mid-May. There is strong local opposition to renewal.



Vice-President Gore in a US flight jacket speaks to servicemen and their families at Yokota air base west of Tokyo. Picture: Reuters

Australian Senate overturns voluntary euthanasia law

By Nikki Taft in Sydney

The world's first legislation to give explicit permission for voluntary euthanasia in Australia's sparsely populated Northern Territory was overturned narrowly yesterday.

The Australian Senate, the federal parliament's upper house, voted 36 to 33 to reverse the law, which came into force last year. The decision came after almost a week of debate, at the end of which senators had a "conscience" vote - with no requirement to vote along party lines.

Euthanasia is possible under the legal systems of some countries, but the Northern Territory bill - passed in 1995 - was the first to allow assisted suicide, and set out circumstances in which it could be carried out.

To qualify, patients must be in pain, over 18, be of sound mind and certified as terminally ill and beyond medical help by two doctors, each with

five years' medical experience and one with a diploma in psychiatry. Four terminally ill people have used the law to end their lives.

The final debate took place before a packed gallery, which included Dr Philip Nitschke, who has had a leading role in pioneering the euthanasia law, and Ms Margaret Tighe, head of the Right to Life organisation. Supporters of both sides kept vigil outside Canberra's Parliament House.

Inside, Senator Jocelyn Newman - who is minister for social security - came close to tears when she recalled her personal battle against cancer. Dr Nitschke asked that the bill not be signed into law by Australia's governor-general until two further patients who have met the law's requirements have died, but an amendment to that effect was voted down.

The issue has called into question whether the federal government should override

territory laws in "non-critical" circumstances. Australia's two territories have smaller populations and lesser powers than the states, whose laws cannot be superseded by the federal parliament.

Mr Shane Stone, the Northern Territory's chief minister, has argued that federal powers to set aside territory laws are only expected to be used in times of "civil unrest, bloodshed, almost civil war".

The private member's bill to overturn the territory's assisted suicide law has already passed through the House of Representatives, federal parliament's lower house, by a much larger majority.

However, opinion polls consistently indicate that about 75 per cent of Australians favour giving terminally ill patients the right to end their lives.

Public opinion is expected to lead to pressure on one of the states - possibly Victoria - to enact a law similar to the Northern Territory's.

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Europe since the Rome Treaty - From Six to 15; from Economic Community to Union



Signing of the Treaty of Rome

1957: Treaty of Rome establishing the European Economic Community (EEC) and the European Atomic Community. Members: Belgium, France, Germany, Italy, Luxembourg, Netherlands

1981: UK applies for membership. Denmark, Ireland and Norway also apply



Charles De Gaulle

1963/67: French President De Gaulle vetoes British membership

1965: De Gaulle boycotts EEC meetings with an 'empty chair' policy

Edward Heath
UK prime minister

1972: Signing of the Accession Treaty for UK, Denmark, Ireland, Norway (which rejects it in a referendum the same year)

The European Parliament
in Strasbourg

1979: First direct elections to the European Parliament. Launch of European Monetary System linking currencies

1981: Greece joins officially

Felipe Gonzalez
Spanish prime minister

1986: Spain and Portugal join officially. Single European Act signed to set up the single market and streamline decision-making

Jacques Delors
Commission president, 1985-95

1991: Maastricht Treaty on European Union and economic and monetary union agreed

1993: Single European Market established

Jacques Santer
Current Commission president

1995: Austria, Finland and Sweden become members

1996: Inter-governmental Conference to review the Maastricht Treaty and prepare for further enlargement



The euro note

1998: European monetary union?

Forty and fatter but it's still worth celebrating

The European Union turns 40 today, an occasion for celebration tinged with introspection and self-doubt.

Once described as a supermarket built on a graveyard, the EU has achieved peace and prosperity in western Europe on a scale which would impress the founding fathers who gathered on March 25 1957 to sign the Treaty of Rome.

A customs union, a common external tariff, the European Monetary System, an internal market of 370m consumers, and an expansion in membership from the original six to the present 15: these are among the successes of the past 40 years.

Today, the EU is still a club

seen as worth joining.

Ten former communist countries from central and eastern Europe, Cyprus, Turkey, even Russia, as President Boris Yeltsin announced last weekend, are queuing up to join the Union.

Yet the EU risks becoming a victim of its own success. The 1991 Maastricht treaty, with its fixed timetable for economic and monetary union and its vaguer promise of political union, left ordinary citizens uneasy about deeper European integration.

Maastricht meant "Europe" was moving into the most sensitive areas of national sovereignty: currencies, immigration controls, and defence policy. Fairly or unfairly, the treaty has

become a by-word for remote but intrusive decision-making in Brussels.

The sense of insecurity and dislocation among ordinary EU citizens has been exacerbated by mass unemployment.

Today, with 18.5m people out of work - the combined population of Denmark, Finland, and Sweden - the EU finds itself the target of popular frustration.

The fragile state of public opinion in Europe overshadows the Maastricht II constitutional conference (IGC) which was originally seen five years ago as a chance to plug the gaps in Maastricht I.

When EU foreign ministers gather in Rome today to review progress in the conference, the

limits of integration will be obvious. Closer co-operation in justice and home affairs, some extension in majority voting, a commitment to adjust the size of the European Commission, and some modest reforms to improve the efficiency of foreign policy-making hardly amount to a great leap forward.

Maastricht II is scheduled to be wrapped up at a summit in June in Amsterdam. Tellingly, IGC negotiators refuse to spell out whether they will meet their earlier pledge to create a Union fit to double in size over the next 10 years.

Talk of Maastricht III hangs in the air. The real test for the EU is to manage the twin challenge of

monetary union and enlargement to eastern Europe.

Yet both lack deep-rooted support among the public; both require a cultural revolution in institutions and decision-making.

First, the single currency. EU leaders have turned the launch date of Emu on January 1 1999 into a test of their own political virility, often at the expense of rational debate.

Last week, Mr Yves-Thibault de Silguy, the French commissioner for monetary affairs, attacked the idea of a delay as "economic suicide."

Mr Jacques Santer, president of the Commission, declared "war on the pessimists", echoing similar noises by Chancellor Helmut Kohl of Germany.

Increasingly, it is hinted that a delay in Emu could lead to a delay in the opening of accession negotiations early next year with some or all of the 10 central and eastern European countries: the Czech Republic, Hungary, Poland, Slovenia, Slovakia, the Baltic states, Bulgaria and Romania.

A second barrier is that eastern enlargement will require reforms in the common agricultural policy and EU structural funds which form the basic political contract between the farmers, the poorer regions, and national governments.

For better or worse, therefore, the future course of the Union appears to rest on the single currency project.

If Emu supporters are correct, monetary union will create a zone of stability around France and Germany which should protect the single market.

Emu should reinforce the trend toward stable, low-inflation economies with lower interest rates, higher investment and ultimately higher employment.

But the risks are obvious. A continuation of the low-growth and high unemployment of the 1990s in the post-Emu world would deprive the Union of its strongest claim to the loyalty of the people: that closer integration has unequivocally served their self-interest.

Lionel Barber

How euro may fit in with the Fund

Europe's single currency will need different relationship with IMF, writes Robert Chote



Preparing for Emu

The International Monetary Fund is busy expanding its headquarters on Washington's 19th Street. But if some of the more zealous and far-sighted advocates of a European single currency have their way, then the global economic watchdog could be forced to abandon its home in the US and sail across the Atlantic.

Article XIII, Section 1, of the IMF's articles of agreement states that "the principal office of the Fund shall be located in the territory of the member having the largest quota". Quotas are the subscriptions which IMF members pay the organisation and which determine their voting power and access to its financial help.

The size of the US economy means that it has by far the largest quota at \$36bn, well in excess of Germany's \$11bn and France's \$10bn. But some European policymakers believe the members of a single currency area should pool their representation at the Fund. If enough countries sign up, that might be enough to give the euro area a bigger quota than the US. In that case it would be time to call in the movers.

All but the most ardent Euro-enthusiasts regard this as a highly unlikely scenario until Europe supplements monetary union with political union. But it highlights an area of preparation for Emu to which policymakers have only just begun to turn their minds: how will a single currency affect Europe's

participation in the international financial institutions?

Mr Philippe Maystadt, Belgium's deputy prime minister and head of the IMF's principal ministerial committee, addressed this question at an IMF symposium in Washington last week.

"I believe that Emu members will remain individual members of the Fund, at least during a transition period," he said.

The Fund's articles made it clear that membership had to be available to countries individually and amending this rule would be complicated and time-consuming. Mr Maystadt also doubted there would be the necessary unanimous agreement among Emu members themselves to pool quotas.

Policymakers have only just begun to turn their minds to the problem of how Emu will affect Europe's participation in the international financial institutions

But sticking to the status quo will make it more difficult for the Fund to scrutinise economic policies, which it does through regular Article IV consultations with its members. National governments will no longer have responsibility for interest rate or exchange rate policies, which will be handled by the European Central Bank and the finance ministers' council.

Mr Maystadt argued that the Fund should carry out regular consultations with the central bank on monetary policy, with staff draw-

ing up a report that would then be discussed at an IMF board meeting at which the central bank would be represented.

Exercising surveillance over the euro area's exchange rate policy is more difficult, however, because the central bank and Ecofin council are responsible jointly. Mr Maystadt suggested consultations could take place via the putative economic and financial committee, which will succeed the secretive EU monetary committee. The possibility of an IMF observer attending monetary committee meetings has been raised already on several occasions.

Mr Jacques Polak, a former senior IMF official,

argues that experience with trade policy - which is less important to the Fund than interest and exchange rate policy - demonstrates the need to get the surveillance arrangements right.

"If the Fund favoured a change in the trade policies of an individual member, it was often advised in bilateral consultations that it was not up to the member [whether it agreed with the Fund's view or not] to deviate from a policy decided in Brussels; and the Fund had no recognised standing to argue its case before the

Selected IMF Quotas*

Countries	\$bn
US	36.6
Germany	11.4
France	10.2
Netherlands	4.8
Belgium	4.3
Austria	1.6
Ireland	0.7
Finland	1.2
Sweden	2.2
Denmark	1.5
Spain	2.7
Italy	6.3
Portugal	0.8
UK	10.2
Greece	0.8

*A combined euro-area quota would be smaller than the sum of participants' quotas. Source: IMF

Community," he said.

Surveillance is not the only area in which Emu will complicate Europe's relations with the IMF.

Another is when Emu members could draw on the Fund's financial assistance. The Fund is supposed to offer help in cases of "balance of payments need", but this is difficult to define in a single currency area. And if the euro area as a whole were to be offered financial help, with whom would the required policy conditions be negotiated?

Emu also affects special drawing rights, the quasi-currency which the Fund creates by offering overdraft facilities to central banks and which also provides a unit of account for IMF activities through its valuation as a weighted basket of five currencies.

Since 1980 the SDR basket has included the US dollar, the D-Mark, the yen, the French franc and the pound. Emu would mean the disappearance of two or three of these, requiring the basket to be reconstituted and reweighted.

These issues range from the important to the arcane. Similar questions arise regarding the euro area's relations with the numerous other groups that make up the architecture of the international financial system, so there is much detailed work that remains to be done.

Stark truth about software in run-up to single currency

By Andrew Fisher in Frankfurt

SAP, the big German business software company, has a stark way of drawing attention to the need to prepare for the European single currency: "Scared or prepared?" it says at the top of its Internet page on the euro. "Be proactive," it continues, "develop a checklist and discuss the impacts with your business partners."

The company goes on to say it will have special software available by the end of this year to help customers change over to the new currency. This will tide them over the period between the start of European monetary union in 1999 - if it begins on time - and the actual introduction of the new notes and coins around the start of 2002.

This transitional software will enable customers to use the euro as their main, or house, currency, when they wish, but in a way that preserves details of original transactions in whatever currencies these were carried out.

Thus, a company will still be able to draw up its tax returns in D-Marks even if it is working mainly in euros. Auditors and other experts will be able to work back to the national currencies used in payments, purchases and other dealings.

Mr Henning Kagermann, a director of SAP, says the business software aspect of Emu is a project like any other - not too different from a big and complex software installation in the aerospace or defence industry. The change in German postal codes a few years ago was just as challenging, he says. So was the implementation of a special European Union guideline on new accountancy rules.

Even so, the shedding of national currencies for the euro will have "profound implications" for the way companies do business, SAP says. To gain a lead over their competitors, they should take a close look at what needs to be done in purchasing, administration, logistics, sales, controlling,

accounting and finance, data processing and personnel.

"The big companies will obviously make sure they are well prepared," Mr Kagermann says, referring to international concerns such as Siemens and Daimler-Benz. They will also put pressure on their suppliers to be ready in time. "Our customers are all aware that they have to prepare for the euro," says Mr Kagermann. "Most of them believe that it will come, whether they are enthusiastic or not."

Ironically, in view of the possibility that the European Union might eventually be extended eastwards, SAP says it has learnt valuable lessons from its experience in both Poland and Ukraine - not that the currency reforms in those countries were comparable in scale with Emu. But the way in which changes in these countries' currency valuations were translated into customer software can also be applied to the switch from national currencies to the euro.



AS INVESTING

Aging populations. Diminishing retirement funds. No wonder the

BECOMES INCREASINGLY

way institutional investors work is changing. They're relying on

COMPLEX, CHOOSING

complex strategies. They're looking to alternative ways to generate

A FINANCIAL SPECIALIST

better returns. And they're looking to us. After all, we've created

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some global trends of our own. And our products, services

SIMPLE.

and technology will make your investing decisions simpler.

Mutual Fund Services

Global Custody

Investment Management

Pension Fund Services

Investment Information Services

Cash Management

Currency Management

Securities Lending



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NEWS: INTERNATIONAL

Yemeni party to boycott elections

By Robin Allen in Aden

Yemen's main opposition group, the Yemen Socialist Party (YSP), is to boycott general elections set for April 27 because it says President Ali Abdullah Saleh's government has failed to attend to economic and political priorities in the southern part of the country.

About half of Yemen's population, variously estimated at between 17m-20m, is due to vote to elect 301 members of the national assembly. More than 80 per cent of them are northerners. Elections are held every four years.

The YSP, the former ruling party of South Yemen before unity with the north in May 1990, was a member of the three-party governing coalition with the dominant General People's Congress (GPC) and the Islamist Yemeni Reform Group (Islah) until the 1994 civil war. Then, southern Yemen tried to secede. After the southern defeat, the YSP party was ejected from the cabinet.

Its boycott of next month's elections will mean that up to 80 per cent of the southern Yemeni electorate of some 1.5m will abstain. This leaves the way clear for the northern-led GPC and Islah to consolidate their hold at all levels of state administration in the south, "confirming a situation which already exists," according to an Aden businessman.

The GPC is expected to win more than 200 seats, with the balance going to Islah and independent tribal members.

Mr Saleh Bathawab, a member of the GPC's politburo in Aden, believes that a GPC majority "will end the existing tug-of-war between rival decision-makers". A clear GPC victory would "narrow the base of decision-makers and make it easier to get things done in the south".

Africa 'must catch bandwagon'

Michael Holman on Unido's calls for more efforts to attract foreign investment

Sub-Saharan African governments must accelerate the pace of economic reform or risk missing "the globalisation bandwagon", the United Nations Industrial Development Organisation (Unido) has warned.

In one of its most critical appraisals of the African economy, the organisation urges African leaders to make greater efforts to attract foreign investment, which it sees as essential to the region's recovery.

It also criticises aspects of the World Bank's structural adjustment programme, however, arguing that cuts in public spending have contributed to the deterioration of Africa's infrastructure, one of the factors which deter investors.

The frank analysis, contained in the Africa chapter of a report* on the implications of the globalisation of industry for developing countries, will be seen as evidence of Unido's determination to show its critics that it has acquired a new cutting edge since the appointment of Mr Mauricio de Maria y Campos as its director-general in 1993.

The region has "excellent potential" for investment and growth in agriculture,

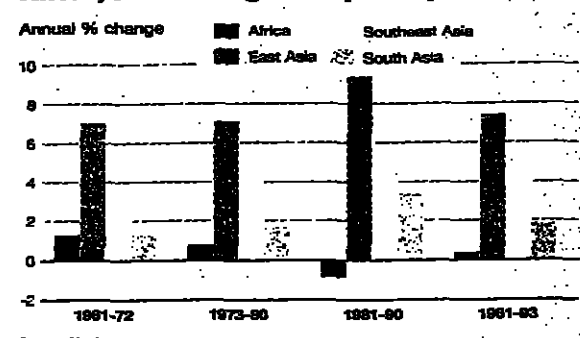
mining, tourism, and agro-industry, says Unido, but adds that "formidable challenges" must first be overcome. These include poor management, inadequate levels of savings, a weak infrastructure, skills shortages, low productivity, high transport costs, and strong competition from other developing regions.

"Industrial development in Africa will take off only when governments succeed in creating the enabling environment necessary to boost domestic investment confidence and attract foreign participation in the form of direct investment and non-equity relationships."

This requires progress on several fronts simultaneously, says Unido: "Policy-makers must tackle trade, fiscal policy, law and order, transparency and accountability, infrastructure, human resource development, privatisation, agricultural development and industry strategy."

High and sustained levels of efficient private sector investment are essential, continues the report. More than 90 per cent of net inflows to sub-Saharan Africa (excluding South Africa) come from official

Africa, Asia GDP growth per capita



sources, mostly on concessional terms, says Unido. Official development aid totalled \$18.9bn in 1995, up from \$15.4bn in 1994.

But in the first half of the 1990s the region attracted only \$3.7bn of foreign direct investment (FDI) - little more than three per cent of the total FDI flows to all developing countries. "The region's failure to attract sizeable FDI inflows has contributed significantly to its poor growth record."

The report also expresses concern about declining domestic investment.

In the 1970s, sub-Saharan Africa invested almost 26 per cent of GDP - higher than east Asia. But by the first

half of the 1990s, this had fallen to 16.3 per cent - partly in response to adjustment programme pressure to cut public sector deficits.

It has been estimated that the African region must invest 13 per cent of GDP merely to maintain its existing capital stock, but in the first half of the 1990s, net investment was barely positive at 3.5 per cent of GDP.

Past policy failures have cost Africa dear, says Unido, noting that sub-Saharan Africa's share in global manufacturing has fallen from 0.6 per cent in 1970 to 0.3 per cent in 1995.

The reports also cites a World Bank study that calculates that the fall in Sub-

Saharan Africa's share of global exports from 8.1 per cent in the mid-1980s to 1.3 per cent in 1990 lost the region around \$65bn at 1990 prices.

Protectionist policies by developed countries are not to blame: "Pre-Uruguay Round tariffs facing African exporters to the European Union, the US and Japan averaged almost 30 per cent - points lower than those facing the Asian countries when they embarked on their highly successful export-led growth strategy."

The report points out that African exporters have lost global market share to Malaysia, Thailand and Indonesia even in products in which they have a comparative advantage, such as cocoa, coffee, rubber, tin and vegetable oils.

The results of reforms introduced over the past 15 years have been "disappointing", says the report, blaming "weak implementation, partly attributable to inadequate institutional capacity", as well as the region's "depleted and run-down infrastructure."

*The Globalisation of Industry: Implications for Developing Countries Beyond 2000, Unido, Vienna. Tel (43 1) 21310, Fax 232156

US and France press for ceasefire in Zaire

By David Buchan in Paris

French and US diplomats yesterday pressed some 20 African countries which will attend tomorrow's Organisation of African Unity (OAU) summit on the Zaire conflict to push for an immediate ceasefire and political negotiations between President Mobutu and the rebels.

The French foreign ministry said the joint lobbying of the members of the OAU conflict resolution committee, who will meet in the Zaire capital of Lomé, was designed to "draw their attention to the importance we attach to the cessation of hostilities and the start of negotiations".

US diplomats confirmed the common approach with France and stressed the main aim of the Lomé meeting was to get the

Kinshasa government to make a convincing commitment to political dialogue.

France and the US had often seemed on different sides earlier in the Zairean conflict, with Paris still seeing some role for President Mobutu, whose rule Washington regarded as effectively over.

But France has recently played down its call for humanitarian intervention that might have had the effect of checking the rebels in eastern Zaire, while the US has itself come to share France's opinion that no quick military solution is possible in Zaire.

Mr Jacques Godfrain, the co-operation minister, met leaders of some 15 African countries who attended yesterday's funeral in Paris of Jacques Foccart, African adviser to successive Gaullist presidents.



Zairean troops wait outside Kisangani barracks yesterday to surrender to rebels

NEWS: WORLD TRADE

Pretoria promises to continue talks on EU trade package including fish and farming

Spain lifts veto on S Africa joining Lomé

By Neil Buckley and Agencies in Brussels

Spain yesterday lifted its block on South Africa's partial membership of the Lomé Convention, clearing the way for South African access to the forum linking the European Union with developing African, Caribbean and Pacific (ACP) countries.

At a meeting of EU foreign ministers in Brussels, Mr Abel Matutes, Spain's foreign minister, removed a

veto imposed last month on South Africa's entry into Lomé pending progress in talks on allowing EU trawlers access to South African waters.

Although those negotiations have made little progress, Mr Matutes said Spain had decided not to hold up South Africa's entry because of its strategic importance for the development of the continent.

South Africa had also promised to continue negoti-

ations on a broader trade package, including the fishing pact as well as agricultural and wine exports.

South Africa could now join Lomé at the biennial meeting between the EU and ACP countries in Luxembourg on April 24-25.

Failure to join by then could have left South Africa waiting until the fourth convention had been ratified by all 15 EU and 70 ACP signatories, which could take two years.

"Taking into account that we are arriving at the deadline to take a decision concerning Lomé, Spain will not force the situation and will not put its veto against South Africa in this very important issue," Mr Matutes said.

South Africa's partial access to Lomé will give it access to preferential loans from the European Development Fund, and the right to take part in political decision-making among the

Lomé Convention countries. It was particularly keen to be included in consultations on the future of the convention, since the European Commission and ACP countries are discussing what should replace the current agreement when it expires in 2000.

Pretoria originally pressed for full Lomé membership, but has been granted only partial membership on the grounds that its economy is too developed to benefit from

the trade and aid provisions of the accord.

In addition to partial Lomé membership, the EU has proposed a bilateral trade pact between the two sides leading eventually to the creation of a free trade area.

Pretoria rejected initial terms for a free trade area offered by the EU, saying it would harm South African agriculture and undermine its trade relations with neighbouring countries.

Ontario in drive for investment in car components

By John Griffiths

Ontario has launched a \$500m (US\$36m) drive to win inward investment, mainly in automotive components, to support rising vehicle production in the Canadian industrial province.

The programme, targeting the US, UK, Germany and Japan, coincides with \$22bn investments by Toyota and Chrysler to expand vehicle production in the province.

Ontario produces 2.5m cars and light trucks a year, second only to the adjoining US state of Michigan in North American vehicle production. A team led by economic development and trade minister Mr William Saunders is seeking to persuade suppliers to Toyota, in particular, to locate in the province to supply a new sports coupé in which Toyota is investing \$500m.

The investment drive, during which the Canadian group has been meeting dozens of suppliers in the four countries, follows re-election of a Conservative provincial government in mid-1995 and the rolling back of labour and other perceived "anti-business" legislation. The legislation had been responsible for Ontario "dropping

off the world's radar screens" as a suitable region for inward investment, Mr Saunders says.

Canada's share of global investment has fallen from 11.3 per cent in 1980 to 4.6 per cent in 1994. Traditionally the recipient of about 50 per cent of inward investment to Canada, Ontario has been badly hit by the drop.

Despite this, components sales have still risen from \$34.5bn in 1981 to well over \$200bn now. Some 85-90 per cent of vehicles and components are exported to the US tariff-free under the 30-year-old Auto Pact between the two countries. Over the past six years, General Motors, Ford, Chrysler, Toyota and Honda have invested \$28bn in expanding and retooling their Ontario plants.

Mr Saunders says 1,000 individual items of legislation have been rolled back in the past 18 months and labour costs in the industry have fallen sharply to about \$235 (US\$25.40) an hour, including social overheads. The investment drive is thus laying strong emphasis on wooing motor components producers out of Germany, where labour costs have reached the equivalent of \$288 an hour.

Gas pipelines, power and petrochemicals pass to private sector

Mexico sets out energy plans

By Daniel Dombey in Mexico City

Mexico is to grant four concessions to build and lease power stations, and will sell off minority stakes in its petrochemical industry by the end of the year. It also expects to award concessions for distribution and transport of natural gas at the rate of one a month.

Until recently Mexico's energy liberalisation programme was stalled by a mixture of political and technical problems. Only last year did it start to award concessions, although legal reforms opening up the electricity generation and natu-

ral gas sectors were pushed through in 1992 and early 1995, respectively.

Last week, one obstacle was surmounted when a \$300m concession was awarded to build and operate a 700km gas pipeline to feed a new power station near the town of Merida, in the south-eastern Yucatán peninsula. The contest was won by a consortium of TransCanada Pipelines of Canada, Bechtel's Interreg Group of the US and Mexican construction group Gutin, although other bidders had offered lower prices.

In addition, a second concession to distribute natural

gas was awarded to the consortium Distribuidora de Gas Natural de México (DGN), made up of the Mexican company Proxima and the US-based Pacific Enterprises and Enova-San Diego Gas & Electric. The concession, for the area around the northern city of Chihuahua, implies investment of \$46m and involved the privatisation of pipelines belonging to state oil monopoly Petróleos Mexicanos (Pemex).

Mr Jesús Reyes-Heroles, the energy secretary, said other gas concessions, including that for the industrial town of Toluca in central Mexico, would now go ahead. Although DGN also won the

first gas distribution concession, for the border town of Mexicali, he said Mexico's competition commission would stop monopolistic practices.

Government officials said the four power generation projects to be granted this year would conform to a Build-Lease-Transfer model, but they might also give companies the option of keeping the plants.

Mr Reyes-Heroles also said that the government was confident that it could complete its politically sensitive sale of minority stakes in petrochemical interests during the second half of the year.

Internet phone service developed

By Alan Cane

USA Global Link, a fast growing US pioneer in the use of technology to cut the cost of international telephone calls, says it has developed the first telephone-to-telephone Internet service. It plans to make the service available in the US, Germany, Japan, the UK, France and other countries within the next six months.

The significance of its claim is that it will be able to provide its customers with calls at a fraction of the usual cost - essentially a call to anywhere in the world for the cost of a local call. The price of conventional international calls is held artificially high by

the Accounting Rate System, a cartel through which international operators agree how much to pay each other for delivering the others' calls.

Using the Internet, the world's largest and most comprehensive computer network, to carry calls will enable customers to sidestep the Accounting Rate System.

Global Link said the system was capable of transmitting voice, fax, video and data without the delays or problems of quality which have characterised Internet telephony in the past. Customers would not need personal computers to make use of the system.

The Internet is designed to transmit packets of information, which are re-assembled into complete messages on arrival, rather than voice traffic which can be delayed and distorted. But Global Link said it had developed technology to overcome the difficulties. It plans to invest \$500m to implement the system worldwide.

Global Link was a pioneer of "call-back" telephony, a method of cutting the cost of calls from countries where international tariffs are high, by reversing the direction of the call.

Call-back, call rerouting and Internet telephony are all technological developments which are expected to bring about the demise of the accounting rate system.

INTERNATIONAL NEWS DIGEST

Shell staff held in Nigeria

The Shell oil company said yesterday that 126 staff and contractors, all Nigerians, were being held at oil installations overrun at the weekend by villagers involved in a dispute with a Niger delta local government.

Shell, often the target of environmental protests in Nigeria, said it had passed on a list of demands to the Delta State government but had not been asked to mediate and had not requested government help to remove the protesters. Villagers agreed to release six of the detained staff who were injured in the attack.

Six pumping stations in the region were occupied on Saturday by community groups unhappy with the relocation of a local government headquarters. The occupation forced Shell to cut crude oil production by about 100,000 barrels per day (bpd), or 6 per cent of total Nigerian production, but exports were not affected.

World oil prices yesterday were unmoved by the news of reduced Nigerian production, but Shell Transport and Trading shares fell more than 2 per cent. *Reuters, London Market report, Page 24*

Angola peace hopes raised

Mr Kofi Annan, UN secretary general, said yesterday that "peace is within sight" in Angola after Mr Jonas Savimbi, the former rebel leader, said he would fulfil promises to create a new government.

Mr Savimbi pledged to send officials of his Unita movement to the Angolan capital of Luanda to set a date to inaugurate a power-sharing government, the final stage in a peace process launched in 1994.

Mr Savimbi said he would not travel to Luanda for the installation of the new government because he still had to iron out "some small problems" with President José Eduardo dos Santos. *AP, Baidundo, Angola*

Iraq food prices tumble

Prices of basic food fell sharply in Iraq and the exchange rate of the dinar improved yesterday as more trucks carrying commodities arrived from Turkey and others were reported on the way from Jordan.

The shipments are a result of the UN oil-for-food deal signed in December in a limited easing of international sanctions imposed on Iraq for its 1990 invasion of Kuwait.

The food is not expected to be distributed for weeks under the UN programme, but traders in the main Baghdad markets said the arrival of the first shipments, mainly lentils and cooking oil, was already affecting prices. Meat was sold yesterday for ID 1,500 (\$1.50) per kilo, down from 2,250 dinars the previous day.

The Iraqi dinar, meanwhile, increased to 1,000 against the US dollar, its strongest rate for eight months. The dinar traded for as much 1,600 to the dollar early this month before the food arrivals. *AP, Baghdad*

Ariane test flight delayed

The second test flight of the new generation Ariane-5 rocket, whose maiden flight blew up on lift-off last summer, has been delayed until at least September, the European Space Agency (ESA) said yesterday. The flight had been scheduled to take place before July, after being put off following the explosion on June 4 last year at Kourou in French Guiana. The explosion was blamed on a failure of its computerised control system. *AFP, Paris*

WORLD TRADE NEWS DIGEST

Sweden hits at EU on dumping

Sweden yesterday criticised the European Union's anti-dumping policies, saying it too often imposed import duties on cheaper foreign products.

Mr Leif Pagrotsky, the country's trade minister, told Sir Leon Brittan, EU Trade Commissioner anti-dumping duties were "a tax on consumers".

He specifically raised the case of import duties on handbags from China. Production of simple types of handbags was being located to low-cost countries while activities such as product development, design, marketing and administration were retained in the EU.

"This development in my view represents a sound and rational adaptation, and I think it is a mistake to try to prevent it through anti-dumping measures," Mr Pagrotsky said.

Last month, the EU executive introduced anti-dumping duties of nearly 40 per cent on imports of handbags from China. *Reuters, Brussels*

Vietnam fuel sale delay

Distribution of petrol and diesel fuel in Vietnam is likely to remain closed to foreign companies at least until the nation's first oil refinery is built, an official of Vietnam Oil & Gas (PetroVietnam) said yesterday.

The government has offered the right to distribute fuels to attract foreign participation in the refinery, said Mr Nguyen Thanh Hai, a deputy managing director at PetroVietnam responsible for product distribution.

Mr Hai said the government would not allow a proposal from Shell to form joint ventures with two state-owned companies to retail petrol in Ho Chi Minh City and Hanoi. The government was concerned about the impact on domestic companies of competition from a large foreign company.

"The market isn't open yet but I think the day will come," Mr Hai said.

PetroVietnam was currently considering a number of different product joint ventures, including a \$100m bitumen manufacturing plant. *AP/DV, Ho Chi Minh City*

Manila bus system agreed

Three Asian groups have signed a joint venture agreement to build a 5.5bn pesos (\$29m) modern bus system and road network project in Manila on a build-operate-transfer basis.

Malaysia's Remong, Singapore-based Volvo-Asia and the local group Philtrac-Volvo will build the People Mover System, an elevated road network designed to ease Manila's traffic congestion.

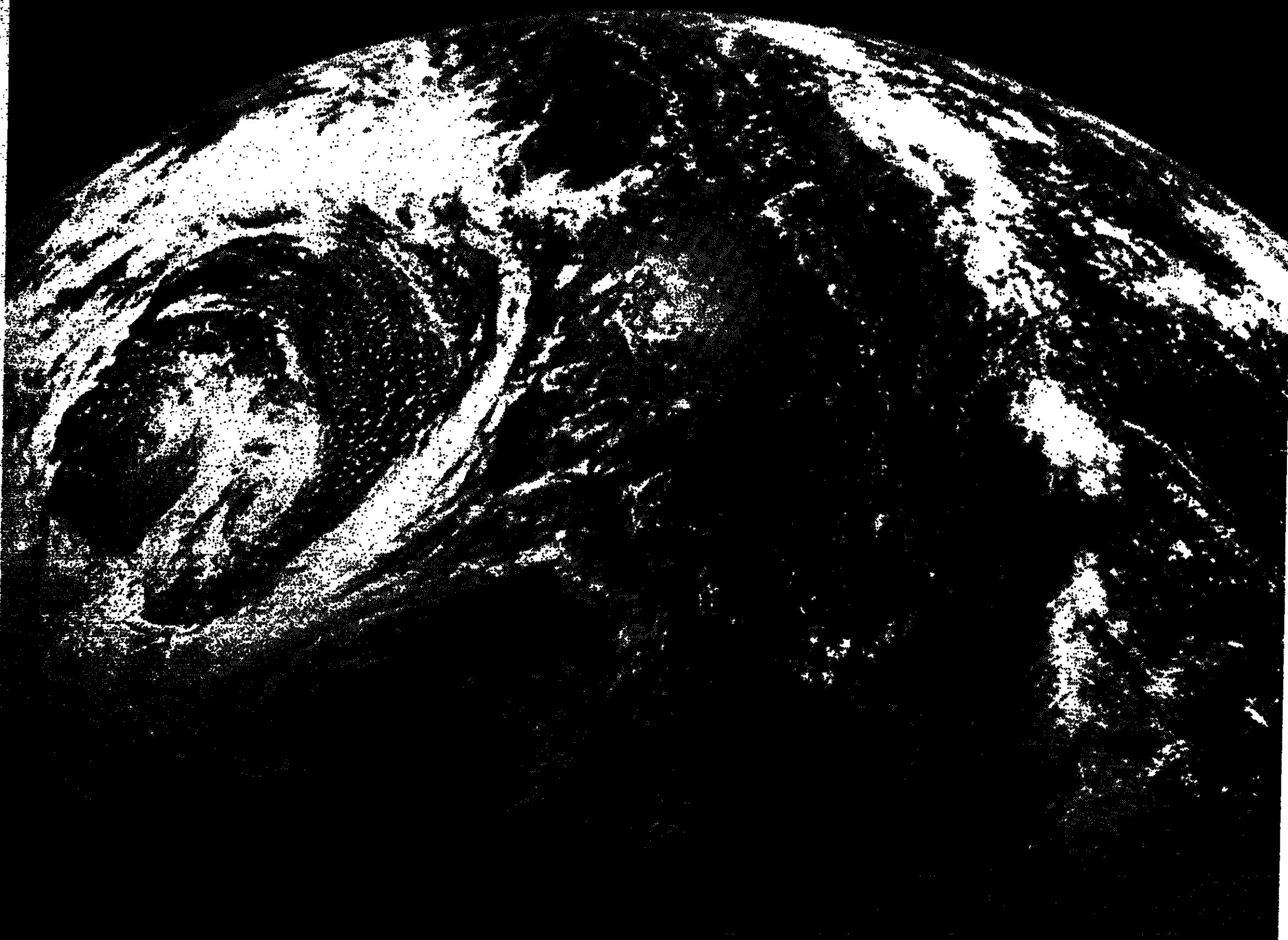
The 110 buses will have computerised tracking systems and magnetic ticketing machines. *Justin Marozzi, Manila*

Philippines loan pact

The Philippines has signed a \$1.24bn (\$1.1bn) loan agreement with Japan. The concessional funding, agreed during an official visit to Tokyo by Mr Domingo Sison, the Philippine foreign secretary, will be used to finance 14 development projects. Two will be in Mindanao, the southern region where a lack of infrastructure and communications remain an obstacle to economic development. Japanese missions have visited Mindanao twice since the peace deal struck last September between the Philippine government and the Moro National Liberation Front. *Justin Marozzi*

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NEWS: THE AMERICAS

Clinton seeks to end budget impasse

By Gerard Baker
in Washington

President Bill Clinton of the US is prepared to drop some of his plans for tax cuts in an effort to reach an agreement with the Republican-controlled Congress to balance the federal budget.

Talks between the two sides are continuing this week during the congressional Easter recess. Administration officials said at the weekend they would be prepared to give new impetus to the discussions by foregoing their proposed tax reductions if Republicans would do the same.

"If having a separate vote on tax cuts turns out to be a means of getting a bipartisan balanced budget agreement, we're open to that," said Mr. Clinton's chief of staff, Mr. Erskine, in a statement.

The White House was responding to a controversial call to fellow Republicans last week from Mr. Newt Gingrich, the Speaker of the House of Representatives, to put balancing the budget ahead of their demand for tax cuts. Mr. Gingrich's remarks were at odds with the previous official Republican line, which is that the party would not agree to any deal with the White House that did not include substantial tax reductions.

Last month the president unveiled proposals he claims would eliminate the current \$120bn federal deficit and balance the budget by 2002. The proposals included tax cuts worth a total of \$98bn over five years targeted at lower and middle income families and some spending reductions. But the Republicans have pressed for much greater tax cuts, up to about \$200bn, paid for by deeper cuts in spending, especially in entitlement programmes such as Medicare, the health insurance plan for the elderly.

Talks between the two sides stalled two weeks ago, following a failure to bridge the gap between the two sides basic tax and spending plans. A potential solution to the impasse, a proposal by Sen. Trent Lott, the Senate Republican leader, that the two sides reach a bipartisan agreement to reduce the rate at which government benefits are increased each year, was rejected by the White House.

Mr. Clinton's latest offer, however, seems unlikely to break the deadlock either. Many Republicans were furious with Mr. Clinton for having traduced what they see as one of the central tenets of modern American conservatism - the case for reducing the role of government by continuing reductions in taxes.

Party leader quits post in drive to build a platform for presidency

Taking on the establishment in Chile

By Imogen Mark in Santiago

Successful politicians rarely resign in mid-career, least of all in Chile, where mid-life crises are not yet a concept much less an acceptable state of mind.

So when Mr. Jorge Schaulsohn, a 43-year-old former president of the lower chamber of Congress and president of the social democrat Party for Democracy, announced he would not run again in the December congressional elections, the news provoked surprise.

Mr. Schaulsohn is quite clear why he is going, and what he wants to do next. His plan is to form a Chilean association for civil liberties, to speak out on issues such as divorce, abortion, women's and minority rights.

"Chilean society is less conserva-

tive than the establishment," he says. "For example, opinion polls show 34 per cent of people are not against abortion. But politicians can't even talk about the issue, it's taboo."

Even more striking, an overwhelming majority of Chileans are in favour of legislating for divorce. But Congress has only just agreed this year to debate a future law, and the government will not sponsor a bill before its term ends in March 2000.

"Congress has very low self-esteem," he says. "It doesn't act like a power of the state, doesn't seriously question the executive, and it doesn't have the information resources to do so, even if it chose to. And the government deals with the right, [the opposition], outside Congress and then sends draft laws

already pre-negotiated." But the real constitutional issue is one no-one even talks about any more. He says, "It's the role of the armed forces, the fact that all four commanders-in-chief sit on the national security council and have a say in nominating other authorities, and that the president has very little power over them, except to name the commanders."

So the transition from dictatorship to democracy since the beginning of the 1990s has followed the path the outgoing dictator, General Augusto Pinochet, laid for it, Mr. Schaulsohn says.

"Look at Pinochet's role, he has become the figure of the transition much more than [the first elected president, Patricio Aylwin]. He's recycled his image and he'll end up

will pass either. But the real constitutional issue is one no-one even talks about any more. He says, "It's the role of the armed forces, the fact that all four commanders-in-chief sit on the national security council and have a say in nominating other authorities, and that the president has very little power over them, except to name the commanders."

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"Look at Pinochet's role, he has become the figure of the transition much more than [the first elected president, Patricio Aylwin]. He's recycled his image and he'll end up

in the Senate [as an ex officio US senator]. He's become a Hollywood celebrity."

With an emasculated Congress and a still-powerful military presence, real hope for change lies outside the political establishment. Mr. Schaulsohn concludes, "As living standards improve, people are going to start wanting change or social issues. They are going to want a more open, tolerant society."

That is what he wants to help build. His critics inside and outside his own party suspect he will also build a platform for a future presidential campaign, and he is frank about his presidential ambitions. But his mission for now is to challenge the establishment and break the mould of traditional Chilean politics.



Pérez former president

Tainted Pérez to 'ideological rescue'

By Raymond Collitt in Caracas

Mr. Carlos Andrés Pérez, Venezuela's two-time ex-president, who survived two coup attempts but was impeached in 1993 on charges of corruption, has formally returned to Venezuela's turbulent political arena.

Expelled from his party Acción Democrática (AD) and stripped by Congress of his life-long honorary post as senator, Mr. Pérez, at 74, said he was convinced he could still show Venezuelans "a new way of doing politics".

At the head of his Movement of Opening and National Participation, launched last week, he claimed to be seeking to rescue a discredited political system.

"Democracy has temporarily lost its base of subsistence - the political parties," said Mr. Pérez. "They have no ideology," he said, adding that he himself has not changed and "continues to be a social democrat". His economic austerity measures provoked bloody street riots in 1989.

Prohibited by law to run in the 1998 presidential elections, Mr. Pérez now wants to set its "electoral agenda" and run as senator for his distant home-state of Tachira, along Venezuela's western border. Having served more than two years under house arrest until last September on charges of misappropriating public funds, Mr. Pérez says he wants to lead the nation's fight against corruption.

Despite his tainted credentials Cap, as he is commonly known after his initials, still draws crowds in the street and has a strong following of loyal supporters.

Whichever presidential candidate he decides to back, analysis says, he may prove more than a pebble in the shoe of the established AD and the Christian-democratic Copei party in their march towards the presidency.

"Carlos Andrés Pérez is a very charismatic leader and, although he may not be able to exercise his leadership within AD, he certainly does outside the party," said Mr. Flavio Carucci at the Latin American Institute of Social Science Research (ILDIS). Mr. Pérez may well capitalise on popular anti-party sentiments, he said.

Despite 26 months of seclusion in his luxurious villa on the outskirts of Caracas, Mr. Pérez has not lost contact with the outside world, thanks to the Internet and other means of modern technology.

To many, the comeback smacks of a search for vengeance and an attempt to prove he is still a political force to be reckoned with. "I've been victim of a slanderous campaign by the senate," he said.

Yet rather than strengthening political parties, critics say, Mr. Pérez's break-away movement may add to a growing trend of using parties as mere electoral springboards. President Rafael Caldera, life-long rival of Mr. Pérez also founded his own party before reaching the presidency in 1994.

US healthcare costs: the treatment is wearing off

The savings enjoyed by corporate America from 'managed care' are threatening to come to an end soon, writes Lisa Bransten

The spectre of runaway healthcare costs is returning to haunt corporate America.

Many of the savings enjoyed by US employers over the past three years have been wrung out of the system as a majority of American workers were shifted to "managed care" insurance, which controls what health services they can get and at what price.

Now both healthcare providers - doctors, hospitals and the like - and consumers are trying to reclaim some of the power they lost in that shift.

Most people in the US are covered by private health insurance, which they receive through their employers. As healthcare costs rose sharply in the 1980s, employers turned from using insurers that provided traditional coverage -

simply paying for any services provided - to insurers, known as health maintenance organisations (HMOs), that more closely monitored medical services.

By last year about 75 per cent of working Americans were covered through HMOs, or some other sort of managed care. This contributed to a significant containment of healthcare costs.

Since 1994, healthcare costs have risen less than inflation, according to Foster Higgins, a benefits consulting firm. Last year companies' spending on health plans rose 2.5 per cent compared with a 3.3 per cent rise in consumer prices.

But Mr. John Erb at Foster Higgins believes the downward trend is over. A survey by the firm of 3,200 employers found that most expect costs to rise an average of 4 per cent this year. Mr. Erb

says growth could return to double digits by 1998.

One reason for the change is that a good part of the savings has come at the expense of healthcare providers such as doctors and hospitals, and they are beginning to fight back. Some HMOs employ their own doctors and operate healthcare facilities, but an increasingly common method of controlling costs - such as the explosion of expensive tests - has been to pay doctors "per-patient" or "per-day" fees regardless of the care.

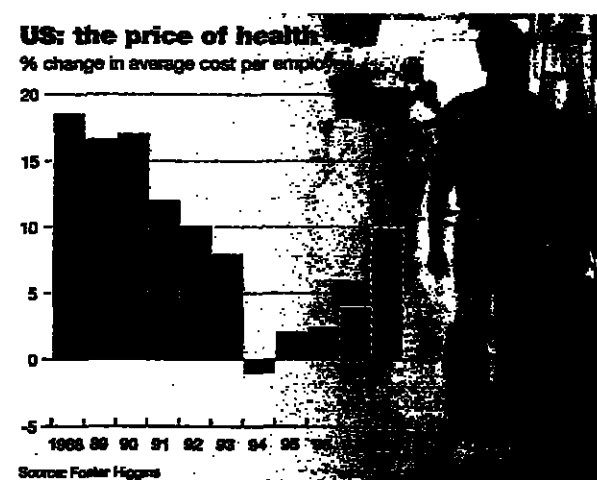
Now, however, more and more doctors are joining forces in an effort to gain bargaining power over the managed care companies, and there has been considerable consolidation in the hospital sector.

Employers are beginning to see it coming. Rising hos-

pital costs are among the primary worries for Ms. Linda Franklin, director of employee benefits at Skadden Arps, which with 2,800 employees is one of the largest law firms in the US. Healthcare costs for the firm dropped last year and have held steady this year, but Ms. Franklin does not think that will continue indefinitely.

Increased medical costs have also led many managed care companies to raise the premiums they charge employers. Last year the battle for market share was such that many HMOs held down premiums at the expense of profit margins, but that is changing, says Mr. Gary Frazier, a healthcare analyst at Bear Stearns, the US investment bank.

Premiums on managed care plans fell an average of 1 per cent last year, he says,



but he is expecting a rise of 2 to 3 per cent this year and an increase of 3 to 5 per cent in 1998.

Another pressure on healthcare costs is coming from the consumer side where more limited access to

deterioration of healthcare, but stories of parents driving their children long distances to "plan-approved" emergency rooms and patients being denied special treatments are widespread.

"In too many cases the pressure for profits has led to less care, not better care," said Senator Ted Kennedy last month as he introduced his sweeping Health Insurance Bill of Rights.

The legislative push began at the end of last year with the passage of a law that put a stop to "drive-through deliveries" by requiring that women be allowed to stay in hospital at least 48 hours after giving birth. Another law prevents insurers offering less coverage for mental care than physical care.

This year Congress has moved on to "drive-through mastectomies" and is also

taking on some of the more controversial ways managed care companies control costs.

One bill deals with "gag clauses", which are components of contracts between HMOs and care providers that require doctors to prevent them from discussing treatment options not offered by a patient's insurer. Another requires that patients be given more freedom to seek expensive emergency room treatment.

Ms. Karen Ignagni, president of the American Association of Health Plans, says that "were this legislation to pass it would turn back the clock. We would be back in an environment that would be very close to the environment that became unaffordable to consumers and became unaccountable in terms of measures of quality."

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY				
Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate
1988	101.9	95.8	102.1	99.8	85.0	100.9	95.3	101.4	102.7	118.6	99.9	97.5	103.6	103.8
1987	105.6	100.7	103.8	97.5	78.1	101.3	92.5	103.1	100.0	122.8	100.1	98.0	107.9	107.1
1986	109.9	102.2	106.6	95.4	71.0	102.3	92.3	107.8	96.0	131.0	101.4	98.2	112.6	108.9
1985	115.2	108.5	109.9	101.7	74.9	105.1	94.2	114.0	96.9	123.5	104.2	99.3	117.1	108.0
1984	121.5	113.9	113.6	104.0	73.2	108.3	95.7	120.1	99.7	108.2	107.0	101.0	102.5	103.9
1983	126.6	116.3	117.3	107.3	74.1	111.9	98.8	124.2	103.9	111.2	110.9	103.4	131.3	109.5
1982	130.4	117.7	120.1	107.0	74.1	114.0	98.9	125.8	112.8	114.8	116.5	104.9	138.2	115.3
1981	134.3	119.2	123.1	106.7	76.6	118.4	94.3	125.8	118.6	123.2	121.7	105.1	145.6	119.5
1980	137.8	119.9	126.6	106.4	74.5	116.2	92.6	128.4	118.5	137.8	125.1	105.7	150.8	112.0
1979	141.7	122.2	129.7	106.6	68.9	115.9	92.0	132.5	115.8	138.6	127.4	107.5	156.8	110.7
1978	148.8	125.4	134.0	104.9	73.4	115.8	91.3	135.9	119.9		129.3	107.1		110.7
1st qtr.1996	2.7	2.2	2.7	-0.4	72.0	-0.3	-0.9	1.8	-0.4	129.4	1.6	-0.2		3.7
2nd qtr.1996	2.9	2.5	3.4	-0.5	73.4	0.1	-0.9	1.6	-0.5	121.0	1.5	-0.8		3.7
3rd qtr.1996	2.9	2.9	3.4	-0.9	73.8	0.0	-0.8	4.6	-3.5	115.1	1.5	-0.6		3.7
4th qtr.1996	3.2	2.9	3.6	-0.9	74.5	0.1	-0.6	2.0	-1.4	114.3	1.4	-0.3		10.7
March	2.8	2.4	2.2	-0.3	72.3	-0.2	-0.9	2.7	3.4	122.1	1.7	-0.3	n.a.	11.2
April	2.9	2.4	3.5	-0.3	73.0	0.2	-0.9	2.4	-0.1	121.2	1.5	-0.5	n.a.	0.0
May	2.9	2.9	3.4	-0.3	73.5	0.1	-0.8	2.1	-2.5	122.6	1.7	-0.5	n.a.	2.0
June	2.8	2.7	3.4	-0.3	73.9	0.0	-0.9	0.8	-1.2	119.0	1.4	-0.6	n.a.	11.0
July	2.9	2.6	3.2	-1.5	73.6	0.4	-0.8	3.6	-6.6	118.4	1.8	-0.7	n.a.	-2.0
August	2.9	3.0	3.5	-0.8	73.9	0.0	-0.7	7.8	-1.9	118.9	1.4	-0.7	n.a.	-4.0
September	3.0	3.0	3.4	-0.6	74.1	-0.4	-0.8	3.0	-3.2	117.7	1.4	-0.6	n.a.	-2.0
October	3.0	3.0	3.3	-1.0	74.4	0.0	-0.8	2.8	-2.2	116.0	1.5	-0.5	n.a.	-2.0
November	3.3	3.0	3.6	-1.4	73.8	0.1	-0.6	2.5	-2.7	114.4	1.4	-0.3	n.a.	-4.8
December	3.2	2.8	3.9	-0.4	73.2	0.2	-0.4	1.5		113.7	1.4	-0.3	n.a.	10.2
January 1997	3.0	2.5		-0.1	76.6	0.0				111.6	1.5	0.7	n.a.	10.7
February	3.2	2.2			75.0	0.1				105.1	0.9		n.a.	10.7
FRANCE					ITALY					UNITED KINGDOM				
Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Exchange rate	Unit labour costs	Real exchange rate
1988	102.5	98.0	104.5	101.8	103.4	108.1	100.2	104.8	102.8	101.3	103.4	101.4	107.7	105.1
1987	105.9	98.1	107.8	103.0	104.6	111.0	103.1	111.6	105.5	102.2	107.7	104.9	118.3	107.1
1986	108.8	102.9	111.1	104.1	102.1	115.5	105.8	118.4	106.7	101.0	113.0	106.7	128.2	110.3
1985	112.6	108.2	115.4	105.2	96.6	124.2	113.1	125.8	112.3	105.3	121.8	113.9	137.2	110.1
1984	116.5	107.1	120.6	108.8	92.8	131.7	117.8	134.7	118.5	112.0	138.3	121.0	150.1	109.7
1983	120.2	106.9	125.8	113.4	100.7	140.3	121.7	147.9	128.6	113.2	141.2	127.5	182.4	128.5
1982	123.1	104.3	130.3	115.6	102.8	147.7	124.0	155.9	134.4	108.9	148.4	131.5	175.1	130.5
1981	125.6	101.6	133.5	118.1		153.9	123.7	161.6	136.7	96.2	148.7	136.7	180.9	130.4
1980	128.6	102.7	136.9		101.4	160.0	135.5	167.0	137.6	94.2	152.4	140.1	189.5	136.1
1979	130.0	103.7	139.0		101.4	168.6	144.0	172.2	137.8	91.2	157.8	140.1	194.0	134.2
1978	132.6		142.7		101.4	175.0	146.4	175.3		102.9	161.5	148.8	206.7	138.6
1st qtr.1996	2.1	-1.2	2.5		101.6	5.0	4.8	1.9	1.6	98.2	2.3	3.6	4.4	3.9
2nd qtr.1996	2.4	-3.9	2.5		101.7	4.2	1.5	2.1	2.6	103.1	2.3	2.9	4.2	4.4
3rd qtr.1996	1.9	-5.2	2.6		101.4	3.5	0.1	1.7		103.6	2.2	2.1	4.5	4.7
4th qtr.1996	1.7		2.7		101.0	2.7	0.5	1.6		105.8	2.6	2.1	4.6	3.2
March	2.3	n.a.	n.a.	n.a.	102.3	4.5	3.7	1.8	n.a.	100.1	2.7	3.4	4.8	4.2
April	2.4	n.a.	n.a.	n.a.	102.1	4.5	2.5	2.0	n.a.	101.9	2.4	3.2	4.3	4.4
May	2.4	n.a.	n.a.	n.a.	101.5	4.3	1.5	2.0	n.a.	103.6	2.3	2.9	4.4	91.0
June	2.3	n.a.	n.a.	n.a.	101.5	3.9	0.7	2.2	n.a.	103.9	2.1	3.9	4.3	65.8
July	2.3	n.a.	n.a.	n.a.	101.6	3.8	0.3	1.9	n.a.	103.6	2.2	2.2	4.4	3.9
August	1.8	n.a.	n.a.	n.a.	101.3	3.4	0.4	1.9	n.a.	102.8	2.1	2.1	4.5	32.9
September	1.6	n.a.	n.a.	n.a.	101.3	3.4	0.5	0.5	n.a.	104.1	2.1	4.0	4.7	4.8
October	1.8	n.a.	n.a.	n.a.	101.6	3.0	0.7	1.6	n.a.	105.7	2.7	2.3	4.0	90.1
November	1.8	n.a.	n.a.	n.a.	101.0	2.6	0.9	1.5	n.a.	105.2	2.7	2.1	4.7	40.7
December	1.7	n.a.	n.a.	n.a.	100.4	2.6	0.9	1.8	n.a.	106.5	2.5	1.7	5.1	2.8
January 1997	1.8	n.a.	n.a.	n.a.	98.6	2.6	0.8	1.8	n.a.	107.1	2.8	1.5	4.2	37.1
February	1.8	n.a.	n.a.	n.a.	97.8	2.5								

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THE DOLLAR OR

THE YEN.

THE CURRENCY
OF THE FUTURE IS
NOT THE POUND,
THE DEUTSCHMARK,
THE FRANC,
THE DOLLAR OR
THE YEN.

IT'S INFORMATION.

It's the nanosecond Nineties. Keeping ahead means being able to gather data from around the globe. Assimilate it, make lightning decisions based upon it.

You may have a competitive advantage for months, days even. Ideas must be rolled out quickly.

The exchange of information is becoming mission critical. A global market is emerging. Its currencies?

Digital information... digital information... digital information.

Data that demands to be distributed, processed, managed.

In the 21st century, every multinational company will need the most sophisticated telecommunications available. The days when carriers would rent out 'big pipes' are no more. We must now offer value added services.

Multimedia too. You're demanding to see and exchange not only the printed word but also data incorporating video, voice and fidelity sound.

On January 8th, the Nippon Telegraph and Telephone Corporation announced an intention to pursue global business. Our determination could be of great interest to you.

And a clear grasp of the possibilities, of the future direction of the telecommunications industry will give your company a significant edge.

INFORMATION HIGHWAY OR INFORMATION CUL-DE-SAC?

Within the next decade, your ability to transact in the global information market will depend entirely on the calibre of your telecommunications services.

An effective worldwide network allows local empires

to exchange ideas, multiply rather than duplicate efforts.

Isn't the knowledge, clout and experience of your telecommunications provider a critical issue?

NTT has critical mass, vast technical expertise and a Japanese affinity for efficiency and process.

We're one of the largest telecommunications companies in the world with 60 million domestic lines, 13 R&D laboratories, exceptional capital investment capabilities.

We already serve some of the most powerful corporations in the world. (Think of any household Japanese name.)

But, in this industry, size isn't all. It's not necessarily the biggest carriers, but the smartest, who will lead the Information Age. Those most aware of their markets.

Which is why, as a service oriented company, we've put together Global Total Solution.

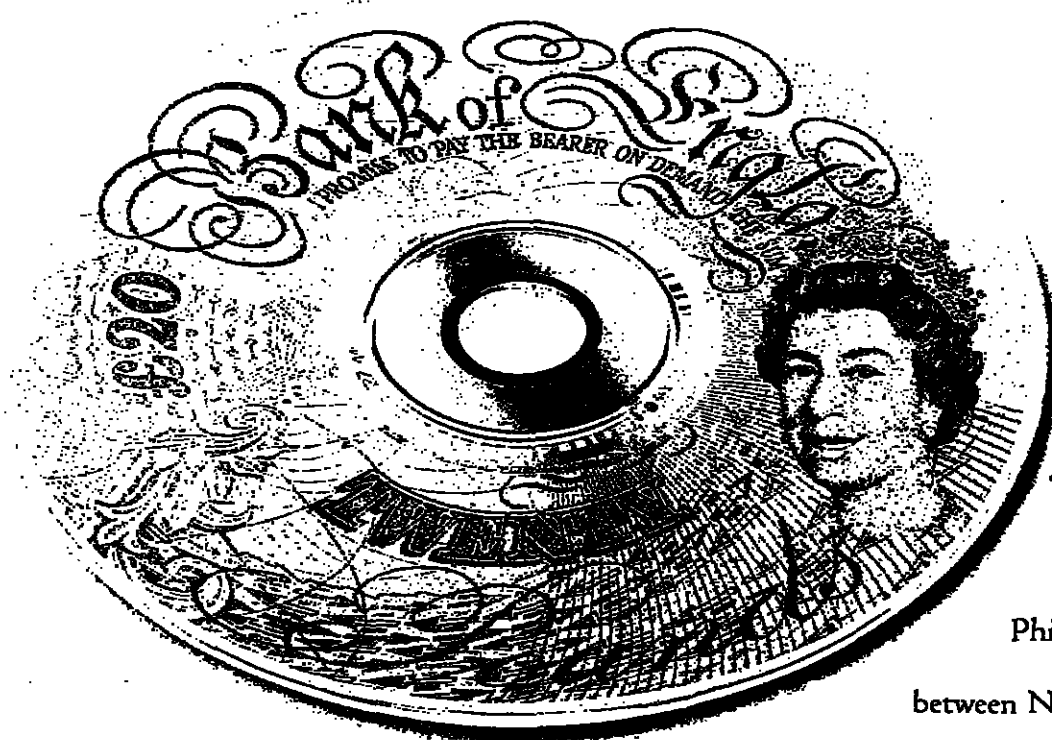
GLOBAL TOTAL SOLUTION. OR WOULD YOU RATHER CONDUCT THE COMPLEX NEGOTIATIONS WITH SUPPLIERS?

Contract negotiations are just the beginning. The hassle and effort of setting up and maintaining a network are limitless. (As limitless as the global information marketplace.)

So we'll provide the total solution to your company's individual needs ~ tailor made, one-stop shopping.

In one integrated package, we'll consult with you, plan and construct your LAN, WAN and Intranet. Your local NTT base will take charge of the equipment and its upkeep.

We'll manage your computer network. Or you can out-source ~ we'll take on your staff and assets, invest in more and run the network for your company.



THE INTERNET IS A BIGGER PART OF YOUR BUDGET BUT
ARE YOU HAPPY WITH THE SERVICE?

20 years ago, our R&D began research on strands of glass fibre that could carry light waves. Today fibre optic cabling can transport phenomenal amounts of data. A single pair of fibres, each the width of a human hair, can transmit more than 10 million million bits of information per second.

Certainly we have invested heavily in optical fibre, laying networks throughout Japan.

An invaluable experience because many networks around the globe are not up to carrying such traffic. 50 million Internet subscribers will be 500 million by the 21st century.

As an IT director are you happy with current systems? NTT's High Speed Internet Backbone, in the final stages of development, can transfer the information contained in one year's subscription to this newspaper in a single second.

CAN WE CONTRIBUTE TO YOUR COMPANY'S EXPANSION
IN ASIA AND THE PACIFIC RIM?

Increasingly as Asia and the Pacific Rim come on stream, multinational corporations need access to the right technology.

And importantly too, the right local knowledge.

NTT can help you penetrate these markets and establish the most cost efficient links.

We're currently using our technological expertise in Hong Kong, Vietnam, Thailand, the Philippines, Indonesia and Singapore. A joint venture between NTT and the Shanghai Post & Telecommunications Administration is consulting on the new telecommunications services for China.

We're also developing advanced multimedia systems ~ the Malaysian Multimedia Super Corridor is one of the most spectacular examples.

This visionary project will have an IT City at the centre of a global multimedia hub.

So you couldn't have a better partner on the ground. No-one knows Japanese and Far Eastern systems like we do ~ we built many of them ourselves.

But giving multinational corporations a foothold in Asia is just the beginning.

It's not only the workplace but education, culture, human development that's evolving in this Age of Information.

Our president, Jun-ichiro Miyazu, has commented, "If we ignore the social change brought about by the aggressive progress of digital technology, we won't be able to find the real direction of the multimedia society."

To find and contribute to that direction is the future for the Nippon Telegraph and Telephone Corporation. Please contact <http://www.ntt.co.uk>. For more information.

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NEWS: ASIA-PACIFIC

ASIA-PACIFIC NEWS DIGEST

LDP politician found guilty

Mr Takao Fujinami, the leading figure in Japan's Recruit scandal, in which top politicians were bribed with cheap shares in an employment agency during the 1980s, was yesterday given a three-year suspended prison sentence and fined ¥43.7m (\$349,000).

The guilt of Mr Fujinami, a former chief cabinet secretary for the ruling Liberal Democratic party, is another dent in the government's image as its popularity sinks to new lows and the leadership of Mr Ryutaro Hashimoto, the prime minister, comes under attack in the press. The Tokyo High Court declared Mr Fujinami guilty of receiving bribes, overturning his acquittal by a lower court three years ago.

William Dawkins, Tokyo
Japan's diffusion index of leading economic indicators turned negative in January, ending a run of four positive months, but economists said the trend was still positive. The index, calculated from 13 component indicators, stood at 44.4 per cent, down from a revised 63.6 per cent for December.

A figure below 50 per cent indicates a negative outlook for business.

Bethan Hutton, Tokyo

Backing for Singapore bridge

Malaysia's cabinet has approved the building of a bridge to replace the 74-year-old causeway, at present the only terrestrial link to Singapore. The move has considerable implications for air and road transport and provides a glimpse of the rivalry which underlies the two countries' relationship.

Mr Samy Vellu, Malaysia's minister of works, said the new bridge and demolition of the causeway would allow ships to sail through the narrow strait.

Singapore's cabinet has yet to make a public stance on whether the 1.2km causeway, often chronically congested, should be demolished to make way for a bridge.

James Eynge, Kuala Lumpur

Pakistan to withhold subsidies

Pakistan's package of economic reforms, due to be announced this week, may include sweeping proposals to cut losses in the public sector by putting it under "zero budgeting", a senior government official said yesterday.

Under the plan, the government would withhold subsidies from the next financial year which begins on July 1 for most of the 250 public sector corporations and independent departments except for a handful of essential services.

Farhan Bokhari, Islamabad

Taiwan in hog disease assault

Taiwan has called in army recruits to help cope with an outbreak of foot-and-mouth disease sweeping the country's hog farms and threatening to torpedo the country's fragile economic recovery.

Officials said at the weekend the losses in exports would cut Taiwan's total gross domestic product forecast for 1997 by half a percentage point to 5.78 per cent. In a worst-case scenario, the outbreak could shave 1.4 percentage points off economic growth. The cabinet's Council of Agriculture said 3.5m head of hog might need to be slaughtered.

Taiwan's agricultural sector accounts for about 3 per cent of GDP.

Laura Tyson, Taipei

A centralised pensions scheme is intended to add liquidity to financial system

Thais face compulsory savings

By Ted Bardacke in Bangkok

A new rescue package will begin to prop up Thailand's battered financial markets this week when the country takes its first cautious step towards a system of compulsory savings.

From Thursday a new centralised Government Pension Fund (GPF) worth about Bt71bn (\$2.7bn) will replace the old civil service pension system and begin operations as a privately managed autonomous entity. Three per cent of government employees' salaries will be automatically withheld and the government will match that amount with contributions to the fund.

By September, all 60 of the country's state enterprises are required to do the same. Private companies receiving new government privileges ranging from investment incentives to stock market listings also must set up compulsory savings schemes with employer and employee

contributions ranging as high as 15 per cent of total wages.

Under normal circumstances the moves to boost personal savings would be hailed as a certain long-term cure for one of the country's most pressing structural weaknesses: a huge current account deficit, compounded by one of the lowest household savings rates in Asia.

However, with financial and property companies going bust and the baht under periodic attack, times are not normal in Thailand. Savings from government employees, amounting to about 15 per cent of the country's monetary base, are therefore being pressed into emergency service to help bail out the sagging property sector, providing much needed liquidity to the financial system and, eventually, boosting the flagging stock market.

No private fund managers have yet to be appointed for the GPF, suggesting that government officials can ini-

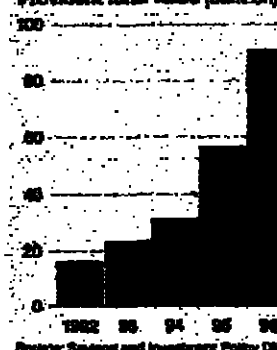
tially determine where the money ends up. Some is likely to remain in the fiscal reserves (money left over after a decade of budget surpluses) until financial authorities are assured that Thailand will not run a budget deficit in 1997; none of it will end up in the stock market until later this year, Ministry of Finance officials say. Some will be put on deposit with commercial banks.

Much of it will be used by government-guaranteed bonds to raise money for the country's Bt100bn property bail-out fund. While this is convenient for the stability of the overall financial system, it is dangerous for the eventual size of the GPF itself because some current government employees, for whom participation in the new scheme is voluntary, are balking at handing over their money to property developers.

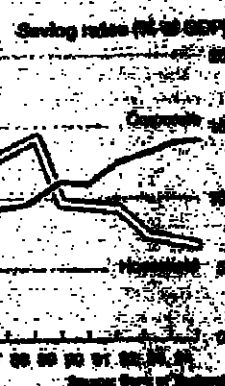
"I was going to sign up for it until I heard they were going to give the money to property speculators," says a

Thailand

President fund value (Bt bn)



Savings rates (%)



Source: Bank of Thailand

Source: Bank of Thailand

Source: Bank of Thailand

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Victoria to split gas sector prior to float

By Nikki Tait in Sydney

Victoria's conservative state government, which pioneered the sale of publicly-held electricity assets in Australia, yesterday outlined plans to split the state's gas industry into separate retail and distribution businesses - a precursor to privatisation.

The former Gasco monopoly will be divided into three new businesses, each containing a retail and distribution arm. The retailers will be known as Ikon energy, Kinetic Energy and Energy 21, while the distributors will be Westar, Stratus and Multinet.

The gas transmission business, which has already been formally split out from Gasco into the "Gas Transmission Company", will also be

divided into two units - a pipeline division, and a "gas transmission system operator" unit, which will be charged with balancing the gas wholesale market.

The Victorian government first outlined plans for gas privatisation last year. As with the electricity industry, privatisation is to go hand in hand with progressive deregulation of the sector, aiming for full competition in small business and retail customers by mid-2001.

However, Mr Alan Stockdale, Victoria's treasurer, acknowledged yesterday that a big difference with electricity restructuring was the lack of infrastructure to provide "upstream competition". "Investment connecting the New South Wales market and Victoria is therefore a high priority," he said.

pointing to plans for inter-connection between Albany and Waggga and the development of the eastern gas pipeline. He also said that studies had indicated "significant potential" for underground gas storage at Port Campbell, west of Melbourne.

Australia's federal coalition government yesterday announced plans for a "small business innovation fund" - under which the government will make A\$130m (\$102m) available to assist small technology-related companies. Private fund managers will be required to match contributions on the basis of A\$1 of private capital for each A\$2 contributed by the government.

News of the funding came as Mr John Howard, prime minister, outlined a package of proposals aimed at helping the "small business" sector. Companies employing less than 15 people will be exempt from unfair dismissal provisions when they initially take on new employees, for example, and there will be relief for smaller companies from the time-consuming fringe benefits tax filing requirements.

Tung attacked on task force appointment

By John Fiddling in Hong Kong

Mr Tung Chee-hwa, Hong Kong's future leader, has come under criticism for his appointment of a prominent property surveyor to head a task force on housing.

The Democratic party and several newspapers charged yesterday that the appointment of Mr Leung Chun-ying represented a conflict of interest and raised concerns about the maintenance of a level playing field in the territory's business sector.

The party also warned that the move to set up task forces on housing, education and welfare, all headed by members of Mr Tung's executive council, an advisory cabinet, risked undermining civil service policy secretaries.

"They will be worried about whether they will remain responsible for policy-making and whether their work will be undermined," said Dr Yeung Sum, vice-chairman of the Democratic party.

Dr Yeung said Mr Leung

should resign from his property surveying company, which he founded in 1988 after leaving Jones Lang Wootton. "It is not a question of Mr Leung's integrity, it is a question of whether these matters should just be based on trust," he declared.

Announcing his decision to set up policy task forces at the end of last week, Mr Tung dismissed the risk of conflict of interest. He argued that the studies would focus on long-term strategies and would not benefit individuals. "Because it is a macro study, conflict of interest does not exist," Mr Tung said. "We will make sure there is no conflict of interest."

Mr Tung, who has cited the territory's housing shortage as one of his main concerns, denied he was moving towards a ministerial system of government. "This does not deviate from the terms of reference for the executive council in providing the chief executive with informed views," he said.

Japan HIV trial opens

By Owen Robison in Tokyo

The start of the trial yesterday of three drugs company executives accused of promoting the sale of HIV-contaminated blood products has highlighted the plight of 2,000 haemophiliacs said to have been infected with the virus in the 1980s.

The case is likely to reignite public anger over the government's failure to enforce standards for blood products, and lead to further cases against those said to have been infected blood in the mid- to late 1980s.

The three accused, all former presidents of Green Cross, formerly known as Japan Blood Bank, pleaded guilty at the Osaka court yesterday to professional negligence charges, leading to the AIDS-related death of a liver-ailment patient from blood products said to have been HIV-tainted and sold in the 1980s.

The three men are the first corporate executives to face criminal prosecution over the scandal in Japan. Two other pending cases are targeted at the alleged failure of Health Ministry bureaucrats to halt the sale of unsafe blood products.

The case focuses on the alleged infection in 1988 and subsequent death of one man. Given the vast network of Japanese medical clinics and doctors involved in the sale and administering of blood products in the 1980s, the case is likely to set an important precedent.

The three executives, Mr Renzo Matsushita, Mr Tadashi Nagasawa and Mr Takehiko Kawano, are said initially to have told investigators they knew of the risk of infection from unheated blood products, but were not aware the products could lead to such a "wide spread" of HIV-infection and result in deaths.

Green Cross has already agreed to pay more than ¥20bn (\$163.3m) in out-of-court settlements.

In related cases, Dr Takeshi Abe, an expert on haemophilia and former head of a government task force on AIDS in the 1980s, and Mr Akikito Matsumura, former chief of the Health Ministry's division in charge of regulating blood products, face similar charges of professional negligence. Both men have pleaded not guilty.

Unease on KL property boom

The market looks set for oversupply, writes James Kyng

The last people to predict a property glut are often those who sell property.

In Malaysia, real estate agents, just like their counterparts elsewhere, are employing characteristic understatement in describing the market. Others are rather more blunt.

"When you can see 10 or 15 construction cranes from your office window, don't tell me that doesn't spell trouble," a senior executive at a foreign bank in Kuala Lumpur said.

Some in Malaysia's capital wonder if they are watching the foundations being laid for the type of property slump which has hit Bangkok and is sending ripples of unease through Thailand's financial sector.

Analysts say that while Malaysia's real estate market looks set to encounter chronic oversupply in some areas, its wider economy is better able to cope with the consequences than Thailand.

But memories of Malaysia's own property debacle of the mid-1980s, which forced Bank Negara, the central bank, to bail out some commercial banks, are being revisited.

"Let us not forget the trauma of the mid-1980s," Mr Ravindra Dass, executive chairman of Dass, Lee and Mohand, property consultants, warned a conference yesterday.

"We do not want repeat performances of empty skeletons of office skyscrapers or unkempt, abandoned housing schemes dotting our urban fringes," added Mr Dass, who for 21 years until 1990 was the director-general

Malaysia foundation of a property glut

Construction boom in Kuala Lumpur

Bank Negara's response to property-related problems

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Housing loans are converted to bonds

By Edward Luce in London

NatWest Markets yesterday converted almost £1bn (\$1.59bn) worth of British housing association loans into bonds in the largest securitisation exercise so far under the government's private finance initiative.

Over 38,000 loans to 1,000 housing associations were transferred from the state's books to NatWest Markets and converted into securitised bonds. The bonds, which will have an average maturity of 28.6 years, will be backed up - or collateralised - by future repayments on the loans.

"This is the largest securitisation of public assets so far," said a banker in London yesterday. "The next big securitisation will probably be the government's student loan portfolio."

The deal involved the transfer of the state's outstanding loans to about half of the country's 2, housing associations. The associations, public bodies set up to provide affordable housing, service the loans with a mixture of rental income and government housing subsidy paid to tenants. These proceeds will now go towards servicing the bonds.

Officials at NatWest said that the loan repayments will be channelled to an independent holding company which will operate as a charity. The holding company, Orchardbrook, will service the debt.

The largest tranche of the bond sale was priced to yield 80 basis points more than long-dated UK government gilts. A basis point is a hundredth of a percentage point. Another £115m tranche, which was set up to deal with the proceeds of unexpected pre-payments of the loans, was priced to yield 80 basis points over gilts. This was designed to compensate investors for the risk of the bond maturing earlier than expected.

Details, Page 22

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Illinois group will make up to 500 vehicles a year for Wisconsin Central offshoot

US company to open rail wagon factory

By Charles Batchelor,
Transport Correspondent

A US manufacturer of rail freight wagons plans to open a UK wagon-building works to make a total of 2,500 wagons over the next five years, it emerged yesterday. Thrall Car Manufacturing Company is expected to build up to 500 freight wagons a year for English Welsh & Scottish Railway (EWS), the offshoot of Wisconsin Central Transportation which took over most of the UK national network's freight business.

This would mean the

revival of UK wagon making which has largely died out in recent years. Most new wagons are imported from France and Finland. Manufacture of the wagons, which is not high-tech, would create jobs.

EWS ordered up to 250 freight locomotives in May 1996 from General Motors of the US because of a lack of competing offers from UK or other European suppliers.

Mr Ed Burkhardt, EWS chairman and chief executive, revealed the plans for the creation of the UK wagon building plant in an

interview with Rail magazine. He said he expected the first of the new wagons to roll off the production line within a year.

"We'll have a detailed announcement within the next several months," Mr Burkhardt said. "We're looking for a site right now and while I have a pretty good idea where that might be I'm not in a position to say so at the moment because we've still got to make some deals."

The wagons are expected to include enclosed "vans", flatbed wagons used to carry

containers and road trailers, vehicles for carrying steel coils and those for transporting track maintenance materials and equipment. It is unclear whether EWS will take a direct involvement in the plant or simply be a launch customer for it.

It is also uncertain whether Thrall will opt for a greenfield site which might attract inward investment grants or choose to revive a redundant existing wagon works.

"The UK wagon building industry has almost disappeared over the last few

years," said Mr David Gillan, director of the Railway Industry Association, representing manufacturers. "This should be good news for the UK supply industry."

The largest UK wagon builder in recent times has been Powell Duffryn, but it closed most of its UK capacity a few years ago to concentrate manufacturing in France. Other manufacturers with wagon building potential include Bombardier, the Canadian group which has substantial UK interests and builds passenger carriages at a former

wagon works near Wakefield. RPS/E has a former BR wagon works in Doncaster and W.H. Davis of Mansfield has recently supplied wagons to Indonesia.

Thrall, which is based in Chicago Heights, Illinois, has four manufacturing plants in Illinois and Georgia. It set up a European office in Glasgow in 1995 and also in Scotland has developed a prototype "piggyback" freight wagon to carry road trailers on the UK rail network. That project was carried out at Babcock Facilities Management at Rosyth.

Furniture leads steady recovery in antiques

A shortage deepened by strong exports is helping the trade to climb out of recession

The antiques trade is slowly recovering from the longest recession in memory. In the late 1980s, anything that was old managed to be sold - or so it seemed. In 1990, the good times stopped abruptly. Since then, there have been many false starts. Now there is hope of a more solid recovery.

Not surprisingly, it is antique furniture that is leading the way in Britain. Furniture never shared the catastrophic decline in value experienced by paintings (and, to a lesser extent, silver and ceramics), although prices for most run-of-the-mill pieces fell. For furniture made of oak and walnut, the fall was quite sharp.

Now, perhaps on the back of the recovery in house prices, the trade is feeling much happier. The Antique Collectors' Club (ACC) has been monitoring the price of antique furniture for almost 30 years. Its 1996 index finds values at a peak, with a 14 per cent rise on the year.

The attraction of furniture

is that, unlike paintings, it is practical. Since everyone needs tables, chairs and cabinets, why not buy antique examples which are likely to appreciate in price compared with modern, department store variants which steadily lose value? Mr John Andrews, who compiles the data for ACC, sees no slackening in the price appreciation. One reason is the continuing decline in the amount of antique furniture available.

Thousands of pieces have been exported over the past few decades, to the US and mainland Europe in particular. Then, too, those inheriting collectable objects are now more likely to keep them, aware of their value and appreciative of their attractions. Not surprisingly, Mr Andrews expects an 8 per cent increase in prices across the board this year.

As the market improves, the old certainties reassert themselves - notably the dominance of Georgian furniture. Late in the 18th century, the shortage of good examples of 18th century furniture pushed the already strong interest in Regency items to greater heights and brought about a cult of Victorian, Edwardian and even later furniture.

It was realised that certain 19th century designers - notably Burges, Pugin and, in the early 20th century, Mackintosh - were producing hand-crafted furniture comparable in genius to anything made in the earlier decades. The big names still command a tremendous premium, but the price of Regency and Victorian furniture generally has not yet experienced the sudden

appreciation of 18th century pieces. At the top end of the trade, dealers such as Mr Stuart Whittington of Norman Adams in Knightsbridge, London, noticed the revival of interest a year ago. Confidence is continuing to build on the back of the property market, which is very strong for houses above £500,000 (£795,000). Mr Whittington has just disposed of a mahogany dining table, made about 1795, for £25,000. In 1973, he sold the same table for £1,850.

Although turnover for the leading dealers dropped in recent years, their furniture rarely fell in price. Since 1980, English furniture has joined French as an international commodity, sought by the mega-rich. Half of Norman Adams' business is outside Britain, with north Americans the main buyers. And, like many dealers, it has been active in repatriating furniture that went abroad in the 1970s and 1980s.

In all antique collecting, however, only the finest examples, the authentic and the attractive, should be acquired. It is easy for the unwary to be fooled by



Michael Cowley, head of the furniture department at Phillips, the London auction house. One reason for high prices is the decline in the amount of antique furniture available

clever faking, and even objects offered in the catalogues of the most respected auction houses raise experts' eyebrows.

If you need furniture, there are compelling reasons to buy antiques. It could not be easier. All the main London salerooms, to say nothing of every regional auction house of any repute, hold regular furniture auctions. Prior viewing and examination are essential, because later restoration is almost inevitable on most 18th century pieces.

Antony Thorncroft

UK ECONOMIC DIGEST

Chancellor says no 'boom-bust'

Mr Kenneth Clarke, the chancellor of the exchequer, yesterday brushed away accusations that he was pushing Britain into another "boom-bust" cycle, as official figures showed that the country recorded its biggest balance of payments surplus for a decade late last year.

The current account was £873m (£1.4bn) in the black during the fourth quarter of 1996, the Office for National Statistics said yesterday. In 1996 as a whole the current account recorded a deficit of only £14m. This was the strongest performance since 1985, albeit blunted by lower payments to European Union institutions.

"A strong pound and rising consumer demand should push the UK back into deficit in 1997," predicted Mr. John O'Sullivan, analyst at NatWest Markets. "But the erosion will occur from a relatively healthy starting point." The improvement in the current account largely reflects a narrowing gap between imports and exports of goods and services, plus a growing surplus from net investment earnings. Inflows of investment earnings exceeded outflows by £2.6bn in the fourth quarter, up from £1.9bn in the third.

Mr Clarke said the data showed that "this time we have healthy growth which is not running into the balance of payments problems which caused past booms to turn into busts".

OUTLOOK FOR JOBS

Employers upbeat, survey reveals

Employer confidence about the outlook for jobs in the second quarter of the year is running at the highest level since 1990, says the latest survey of employment prospects from Manpower, the recruitment group.

The survey of 1,000 employers shows that for the three months from March to June, 36 per cent of employers forecast an increase in job levels, with 12 per cent forecasting a decrease - a balance of 14 per cent. Manufacturing is the most confident sector, with a balance of 19 per cent.

Ms Lillian Bennett, who chairs Manpower, said: "These figures are encouraging, particularly with the high-tech industries leading the field. Our respondents, however, remain concerned about skills shortages, and the effect the strong pound is having on exports."

CONSTRUCTION

Surveyors warn of costs increase

The Royal Institution of Chartered Surveyors reported yesterday that UK construction costs had "leapt over the past 12 months by 7.9 per cent". It warned that costs were likely to rise "at twice the current rate of inflation" over the coming two years.

A separate report by the Civil Engineering Contractors Association said almost a third of companies covered by its workload survey were "experiencing some difficulty in recruiting skilled labour". More than 40 per cent of companies had reported a rise in order books since March last year. This was double the percentage reporting lower activity.

Forecasts that UK construction activity will rise by 3 per cent to 4 per cent this year have increased fears of shortages following deep cuts in production capacity during the recession.

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ETHNIO KEPHALOSOU S.A., Administration of Assets and Liabilities, of the Chartered Liquidators St. Athanasios, Greece, in its capacity as Liquidator of "GREEK INDUSTRY OF READY MADE GARMENTS ROCANAS BROS S.A." a company with registered office in Athens (Attica), Greece, (the "Company"), presently under special liquidation according to the provisions of article 46a of Law 1892/1990, by virtue of Decision No. 5217/96 of the Athens Court of Appeal invites interested parties to submit within twenty (20) days from the publication of this call, non-binding written expressions of interest in purchasing the assets mentioned below, offered as a single entity.

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SALE PROCEDURE
The Company's assets will be sold by way of Public Auction in accordance with the provisions of Article 46a of Law 1892/1990, (as supplemented by art.14 of L.2000/1991 and subsequently amended) and the terms set out in the call for tenders for the sale of the above assets, to be published in the Greek and foreign press on the dates provided by law. (This is the third auction to take place.)

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For the submission of Expression of Interest and for obtaining a copy of the Offering Memorandum, please contact the Liquidator, "ETHNIO KEPHALOSOU S.A. Administration of Assets and Liabilities", 9a Chrysoupoli St., Athens 10560 GREECE. Tel: +30-1323.14.84 - 87 Fax: +30-1-521-7905 (attention Mrs. Marika Pangelaki).

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ARTS

Flemish and Dutch art side by side

Life is too short for lines of distinction between the two peoples, says William Packer

The Palazzo Grassi at Venice continues its series of exhibitions of 20th century art with a study of Flemish and Dutch painting from Van Gogh to more or less the present day. It is an intriguing and in many ways welcome exercise, yet again confirming the obvious but long-neglected truth that there is rather more to modern art than the Franco-centric history of the School of Paris would have us believe.

Rather smaller than some recent Grassi shows, it contains nevertheless many beautiful and remarkable works, and much that deserves to be better known. It is one of those shows that, whatever its argument, is more than justified by the work itself.

In this case the argument is sustainable, up to a point. Van Gogh, for all his virtual adoption by the French, came of an essentially northern expressionist tradition, that goes back to Steen and Breughel. Mondrian, too, while evident in his response to cubism, came of a distinctly northern though different, less hot-blooded line, looking to Sanraedam, Vermeer and Ruysdael. Magritte, arch-surrealist,

was steeped in the symbolist tradition of Khnopff, Rops and Jan Toorop.

All well and good. The interspersed here and there of actual works of the Dutch and Flemish 16th and 17th centuries makes the nice point of continuity of sensibility, while running counter to the instinctive scholarly habit of hermetic categorisation. A church interior by Sanraedam with the photographic form of Jan Dibbets? A Ruysdael cornfield beside a Mondrian? Breughel and Ensor? Why ever not? Artists themselves have never been the prisoners of narrow art history, but have always plundered it to their own purposes.

But then the curators, Jan Hoet and Rudi Fuchs, still cannot resist the temptation of taking the argument too far, in short, falling back into that same old habit after all in replacing one tight theory by another. We accept, of course, that while they have shared a long and complex history, the Dutch and Flemings are quite different peoples. But is there really a clear distinction of sensibility to be drawn between the cooler realism of those

northerners, the Dutch - traced from van Scorel's red-capped scholar of 1531 to Mondrian - and those southern Flemish fantasists, from Patinir to Ensor? But would not that make Van Gogh a dour Dutch northern, and Magritte a lively light-hearted southerner? Life is too complicated, too short, for such games. The theory collapses at once.

Which leaves us, as it should, with the works as they are, full of interest, discoveries and surprises. The obvious names stand out, Van Gogh most of all with a spectacular group of paintings, among them the Cedar Walk at Arles, of 1888, so wonderfully direct for all the radical nature of its handling. More remarkable still is the poppy-field of 1890, the year of his death, near abstract in its simplicity and freedom, and so close in spirit to early Mondrian. Here indeed is one of those "nuances, of subtle unity, of completion and contradiction", of which Jan Hoet speaks in his *oplogia* in the catalogue. The only pity is that while he is wonderfully well represented from the point of his cubist departure around 1913, there is nothing of early Mondrian in the show.



The Rower, by James Ensor, oil on canvas, 1883: the exhibition usefully sets Ensor against Van Gogh revealing their connections

Ensor, another known star, is pointedly and usefully set against Van Gogh, more fluent and natural a talent, perhaps, but closely sympathetic in feeling and subject-matter - here a self-portrait apiece, and two strong, simple images of working men. The symbolist connection, too, is inescapable in Ensor's work, with his masks, his images of death and religious fantasy, which brings in Khnopff,

Jan Toorop, Rops and Spilliaert at the turn of the century, and leads on inevitably to Magritte and Delvaux. While such obvious connections are clear enough, the picture is opened out, the argument broadened, by the inclusion of other remarkable but to us, perhaps, less well-known figurative examples - the symbolist expressionism of Perneke and De Smet; the mannered social realism of Brussel-

mans; the heightened realism of Fyke Koch. Charley Toorop, daughter of Jan, must stand indeed as one of the most remarkable yet underrated painters of her time.

Upstairs, the work of more recent years strikes a lower, less urgent note, although the several threads laid out below may still be picked up and followed. The Cobra group of the 1950s, with

Appel, Constant and Corneille, carries expressionism through towards abstract-expressionism on the one hand, and the knowing naivety of *art brut* on the other. The mannered figuration of Westerik rolls realism, surrealism and symbolism into one.

Broodthaers makes sophisticated conceptual play with ideas that Magritte might well have painted. Broun with his lists and numbers,

Honneman with his insistent structural repetition, Dibbets with his photographic manipulation of space and surface, carry on where Mondrian and van der Leek, and indeed Sanraedam three centuries ago, left off. The wheel is still turning.

Flemish and Dutch Painting - from Van Gogh and Ensor to contemporary artists; Palazzo Grassi, Venice, until July 13; sponsored by Fiat.

Ballet

A toothless Bayadère

Clement Crisp finds the Royal Ballet's staging wanting

La Bayadère is a far more serious work of art than the present Covent Garden revival of Makarova's intelligent staging would have us believe.

At Saturday's first public showing (the production was earlier seen during the Hamlyn week performances, with the sublime Asymuratsova as an unannounced guest) the Royal Ballet showed it as no more than a take-away curry. Makarova, seeking to honour the intellectual and aesthetic weight of Petersburg tradition, wants us to understand the spiritual life and the resonant physical imagery that underpin every moment of this grand and fascinating ballet.

Fyodor Lopukhov, nurtured in the Tzarist theatre and one of the architects of Soviet dance, thought *La Bayadère* a Dostoyevskian drama of crime and punishment. And the components - Nikiya, a temple dancer, loving and beloved by a warrior (albeit such love is forbidden); Indar after by a Brahmin; her warrior, Solor, also torn between love and a "political" match with princess Gamzatti - make for tensions whose only resolution is the death of the wrong-doers and the ultimate reunion of Nikiya and Solor in an after-life.

All this was shaped by Petipa within the conventions of a grand spectacular, typical in its exoticism

and danced complexities of the monumental entertainments that pleased the Petersburg public a century ago.

Like the other old ballets we have inherited from Russia, it is the spiritual dimensions of the production quite as much as the text's stylistic and technical challenges, which have to be respected. And whatever the vagaries of presentation, Russian dancers and producers know this.

Covent Garden's present classic stagings are, for the most part, hollow shams, over-dressed and under-powered, danced by rote, interpreted by hazard. And Saturday's *Bayadère* was most remarkable as a display of how far competence may substitute for comprehension. Unlike the company's view of the Macmillan and Ashton repertory, its drama was wan, characterless. (The troupe would be ashamed to offer *Romeo* or *Macbeth* or *Macbeth* in such cursory fashion.)

Subsidiary roles were ludicrous: the Rajah (David Drew) looking and behaving like a sofa; the High Brahmin (Gary Avis) giving a Boy George impersonation; Gamzatti's trusted Aya risibly like Mrs Overall in Victoria Wood's beatific *Acorn Antiques*. Dance standards were no less woolly.

The D'jampe interlude flapped pointlessly about the stage; the great *pas d'action* looked demure; only Nicola Roberts was able to show her variation in the Shades scene as the jewel that it is. Miss Roberts incarnates virtues of precision, happy phrasing, clarity, that were nowhere else apparent during the evening.

The central trio - Sylvie Guillem, Darcye Russell, Jonathan Cope - laboured against dreadful odds. Mr Cope, a fine artist in many roles, appeared bemused throughout, and singularly unheroic. Miss Russell, looking ravishing, is far too nice a girl for Gamzatti, and is quite obviously a Credit To The School. She danced her pretty waltz variation in the *grand pas* with a delicious sense of its possibilities in phrasing and accent, but villainy and jealousy are not her style.

It was Mlle Guillem who best showed the possibilities of the ballet. Though I think her Nikiya too sunny when she first greets Solor - the character is more nun than innocent maiden - she brings a proper stillness and a "presence" to the drama and the choreography. She can be technically wilful - a couple of extravagant extensions interpose self between us and the character - but the imponderable and holy nature of the Shade was well stated (noiseless landings on to a beauti-



Labouring against the odds: Jonathan Cope as Solor

fully articulated foot) and she understands how the Shade Nikiya's message to Solor - "Be true to your vow" - must inform every step. In everything, of course, the dance was fluent. But even she could not put much bite into the toothless dramatics that surrounded her.

More intriguing casting might be to reverse the present playing of the women's roles: memories of Guillem's Zarema in *Fountain of Bakhchisaray* suggest that she could be a forceful Gamzatti.

All in all, the staging, oddly lit, had a cursory air.

The power of marketing can be quite unpredictable.

There is no conductor alive who sells more recordings than John Eliot Gardiner, but in the UK at least, the public that buys his records does not seem nearly so enthusiastic about attending the concerts.

There were empty seats at the Barbican last weekend for Gardiner's very enterprising series entitled "Schumann revealed", even though we can be sure that the recordings coming out of it will sell in armfuls. What keeps people away? The difficulty of securing financial backing in London means that Gardiner and his Orchestre Révolutionnaire et Romantique do not appear here often and one would have thought their live appearances were all the more collectable for that.

Ever since Roger Norrington launched his "Experiences" (each a weekend of music and scholarship devoted to a single composer) rivals have wanted to have experiences of their own.

Gardiner's Schumann proved an enjoyable one. There were three evening concerts, a chamber music recital and a couple of talks, and the effectiveness of the music-making made them all go down very easily.

It is not so long since Nikolaus Harnoncourt came

Concert Empty seats revealed

to the Barbican with his view of the Schumann symphonies in fast and gripping performances, played by the Chamber Orchestra of Europe. In many ways Gardiner was similar in outline, just as swift and even clearer with the period instruments of the ORR; but where Harnoncourt had hammered relentlessly at the rhythms, Gardiner was lithe and joyous. The music really felt as though it was composed in the spring of German romanticism.

The four symphonies are being divided, the First and Fourth now, the Second and Third to follow at another weekend in the autumn. For the Fourth, Gardiner proposed a novelty. On Friday he offered the original 1841 version, shorter and lighter, with a keener ear for detail, and on Saturday followed it with the familiar revision of 1853. The audience was invited to declare its preference and vote goes to the 1841 original, after which the usual version sounded thick and stolid - just as

people have accused Schumann of being.

As so often in period performances, the concertos worked less well. Thomas Zehetmair was suitably rhapsodic in the Violin Concerto, but Schumann's inspiration there wanders inconsequently; and Robert Levin, for all his expertise, never quite overcame the problems of a period forte-piano in a modern concert hall, where the solo instrument needs a richer resonance and colour.

The oratorio *Das Paradies und die Peri* on Sunday night, however, worked perfectly: a luminous lightness of texture and delicate precision of performance all round. The outer sections of the work lack memorable material, which is doubtless why it is neglected, but in the central tableau Schumann turns to the homely innocence found in so much German music from *Die Zauberflöte* to *Hänsel und Gretel* and gives it a heavenly early romantic sheen.

There was a satisfactory line-up of soloists, with Barbara Bonney's pure-voiced Peri and Bernarda Fink's dignified Angel rising to the occasion. The ORR and Monteverdi Choir met Gardiner's exacting demands with their expected professionalism.

The recording should sell very well.

Richard Fairman

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Orlando Quartet: perform works by Beethoven; Mar 28

BERLIN

CONCERT
Philharmonie Berlin - Grosser Saal & Kammermusiksaal Tel: 49-30-2614363
● Matthias Passion: by Bach. Concert performance conducted by Hans Hildorf and performed by the Sing-Akademie zu Berlin and soloists from the Berliner Symphoniker; Mar 28

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Parsifal: by Wagner. Conducted by Daniel Barenboim, performed by the Staatsoper Unter den Linden. Soloists include Paul Eising, Andreas Schmidt and John Tomlinson. Part of the Festtage 1997; Mar 28

THEATRE
Berliner Ensemble Tel: 49-30-26408
● Der Aufhaltsame Aufstieg des Arturo Ui: by Brecht. Directed by Müller and performed by the Berliner Ensemble. The cast includes Beyer, Bonn and Broich; Mar 28

CAMBRIDGE

EXHIBITION
Fitwilliam Museum Tel: 44-1223-332900
● Masterpieces of Japanese Printmaking - Part 1: display of Japanese printmaking with a range of artists represented, including Harunobu, Kiyonaga, Utamaro, Hokusai, Hiroshige, and Kunisada; to May 11

DRESDEN

EXHIBITION
Albertinum Tel: 49-351-49140
● 4x1 m Albertinum: exhibition featuring works by four contemporary artists: Raffael Rheinberg (Germany), Nan Hoover (US), Maria Lassing (Austria) and Luc Tuymans (Belgium); to Apr 6

GENEVA

EXHIBITION
Musée d'Art et d'Histoire Tel: 41-22-3114340
● Morceaux choisis, Céramique de Grande Grèce: display of ceramics from Greece, featuring 150 fragments of vases dating from the 5th century BC up to the 3rd century AD. Many of the works on display feature images

of Classical heroes including Hercules, Hector and Achilles; from Mar 28 to Jul 20

LONDON

AUCTION
Sotheby's; Parke Bernet & Co. Tel: 44-171-4938080
● Applied Arts from 1880: highlights of the sale include a rare writing table by Pierre Chareau, dating from the 1920s, four original Art Nouveau watercolours by Eugène Grassat and silverware from the Wiener Werkstätte; Mar 27

CONCERT

Barbican Hall Tel: 44-171-6384141
● Johannespassion: by Bach. Conducted by Richard Hickox and performed by the City of London Sinfonia. Soloists include soprano Rebecca Evans and bass Paul Whelan; Mar 28
Queen Elizabeth Hall Tel: 44-171-9352141
● Mass in B minor: by Bach. Conducted by James Gaddam and performed by the London Orpheus Choir and the London Orpheus Orchestra. Soloists include soprano Julie Kennard, tenor Wynford Evans and organist Alistair Young; Mar 27
Wigmore Hall Tel: 44-171-9352141
● Mandelring Quartet: the quartet performs works by Goldschmidt; Mar 27

NEW YORK

EXHIBITION
The Metropolitan Museum of

Art Tel: 1-212-879-5500
● No Ordinary Mortals - The Human (and not-so-human) Figure in Japanese Art: exhibition covering Japanese art from prehistoric times to the present day, featuring paintings, sculptures, ceramics, textiles, lacquers and prints. Several newly restored paintings will be on display; to Oct 5

OPERA

Alice Tully Hall Tel: 1-212-875-5050
● L'Amore del Te Re: by Montemazzi. Conducted by Gary di Pasquasio, performed by the Teatro Grattacielo. Soloists include Margaret Cusack, Louis Otley and Philip Cokorinos; Mar 26
Metropolitan Opera House Tel: 1-212-362-6000
● Aida: by Verdi. Conducted by Adán Fisher, performed by the Metropolitan Opera. Soloists include Sharon Sweet, Barbara Dever and Michael Sylvester; Mar 28

OXFORD

EXHIBITION
Ashmolean Museum of Art & Archaeology Tel: 44-1865-276000
● Drawings by the Carracci from British Collections: this loan exhibition presents a selection of 100 drawings by the Bologna artists Lodovico (1555-1619), Agostino (1557-1602) and Annibale Carracci (1560-1609). The exhibition looks at the cross-fertilisation of ideas between the three artists, at the central importance of life drawing

to their art, at the inventiveness of Annibale in particular, and at the graphic explorations of all three Carracci in drawings and prints; to Mar 31

PARIS

CONCERT
Théâtre des Champs-Élysées Tel: 33-1 49 52 50 50
● Marie Joaze Pires, Augustin Dumay, Gérard Caussé, Jian Wang and Vincent Pasquier: the pianist, violinist, viola player, cellist and double-bass player perform works by Schubert. Part of the Schubertiade; Mar 26

EXHIBITION

Musée d'Orsay Tel: 33-1 40 49 48 14
● Théophile Gautier, la critique en liberté: exhibition examining the life and times of art critique Gautier and featuring work by artists who were his contemporaries, including Delacroix, Manet and Moreau; to May 18

PHILADELPHIA

DANCE
Philadelphia Museum of Art Tel: 1-215-763-8100
● Rodin and Michelangelo: A Study in Artistic Inspiration: exhibition featuring over 50 drawings and sculptures illustrating the influence of Michelangelo on the French sculptor; from Mar 27 to Jun 22

EXHIBITION
Philadelphia Museum of Art Tel: 1-215-763-8100

● The Hands of Rodin: A Tribute to B. Gerald Cantor: display of 60 sculptures in bronze and plaster, several of them unique casts, including both figural sculptures in which hands play an important role and sculptures of hands alone by the French artist; from Mar 27 to Jun 22

STOCKHOLM

CONCERT
Stockholms Konserthus Tel: 46-8-7880200
● Filharmonikerna: with conductor Fabio Luisi and baritone Andreas Schreiber perform works by Schubert, Weber, Mahler, Berlioz, Brahms and Schönberg; Mar 26

THE HAGUE

JAZZ & BLUES
Dr Anton Philipszaal Tel: 31-70-3607927
● Hans Duffer: performance by the tenor-saxophonist accompanied by his band; Mar 26

VENICE

CONCERT
Basilica di San Marco Tel: 39-415225205
● Requiem: by Verdi. Conducted by Isaac Karabitschewsky, performed by the Orchestra e Coro del Teatro la Fenice; Mar 26

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COMMENT & ANALYSIS

New generation struggle

Big industrial companies want changes to the wholesale power market to reduce electricity prices, says Simon Holberton

Seven years after the privatisation of the British electricity supply industry, dissatisfaction among big industrial users remains widespread. Critics allege the system is still controlled by a handful of large generators which use their dominant market power to keep prices high.

They also feel their concerns are being ignored by Professor Stephen Littlechild, the electricity regulator. He recently backed the Electricity Pool, the body which administers the wholesale electricity market in England and Wales, in rejecting proposals to involve big users of electricity in setting electricity prices.

The exasperation of industry is reflected by Mr Ian Blakey, chairman of the energy intensive users group, a lobby representing the cement, glass, metals, paper, ceramic and chemical industries.

"How many times do customers have to call for reform before action is taken to break up the pool monopoly and bring competition and lower prices to this sector?" he asks.

The market for electricity is like no other commodity. Electricity cannot be easily stored. Moreover, demand and supply have to be matched continuously or else power surges or deficiencies will cause electrical appliances to malfunction.

Since privatisation, the task of matching supply and demand has fallen to National Grid, the company which owns the transmission system in England and Wales. It acts as agent for the pool, matching expected demand with the least-cost way of generating it by calling for bids from generators for each of the 48 half-hours in a day.

To determine the least-cost method, the company asks generators on a day-ahead basis:

● At what price are you prepared to generate?

● How much generating equipment, or capacity, will you have available to generate?

With this information National Grid ranks the bids for each period from the lowest to highest cost; the price for that half hour's electricity is set by the last bid needed to meet expected demand.

The operation of the pool, however, aims to achieve two other objectives: to ensure security of supply; and to encourage sufficient power stations to be built to meet future needs.

The first objective is achieved by paying generators to keep plant available for generation - even though forecasts suggest it will not be needed. The second is met by paying generators more than the minimum needed to match supply and demand to encourage investment.

These payments are passed to consumers in the form of higher prices for each half-hourly period. Capacity payments to attract potential entrants into the England and Wales market have added £1bn to electricity bills since privatisation - the generators received £375m in 1995-96 alone.

The sums involved in rewarding generators for keeping unused plant available are also significant - £900m since 1990.

Big consumers of electricity such as Imperial Chemical

Industries believe substantial savings could be made if there

were incentives to curb demand.

One reason for this is the way the existing system operates: it offers payments to big industrial consumers which undertake to reduce their demand if prices reach particular levels - not for actually reducing it. Mr D.J. Bone of Impkemix Energy, an ICI subsidiary, says this has encouraged companies in the scheme to apply for payments by offering to cut their usage but only if prices reach an unlikely level.

Ms Lisa Waters, economic adviser to the Energy Intensive Users Group, advocates a bidding system which rewards big users for reducing demand rather than simply promising to. "This would give competition to generators and lop prices. I can't think of any way it would lead to higher prices."

The generators argue - and Prof Littlechild last week agreed that the big consumers' approach is flawed. Instead of leading to lower prices, a load management agency would simply transfer large payments to big consumers for coming off the system - paid for by other consumers in the form of higher prices.

Prof Littlechild agrees - and also argues that competition in generation is grow-

ing, with new generators increasingly setting the price. In December, for example, the electricity price was set by Eastern Group for 21 per cent of the month.

Professor Colin Robinson, Professor of Economics at Surrey University and editorial director at the free market Institute of Economic Affairs, believes the only sensible way forward is to refer the pool and the generators to the Monopolies and Mergers Commission.

"It is a hard issue for the Commission to study - it is such a complex issue," he says. "But there is a case for an independent review of the pool and the structure of generation."

"There has been a lot of new entry [into generation] since but it has not had the effect you would expect. The two major generators still have dominant power. While losing market share they have retained the power to set prices."

Prof Littlechild resists calls for an immediate inquiry into generation, arguing "it makes sense" to see how the market develops in the next couple of years. "We want to speed up new entry to challenge the existing generating companies."

He leaves no doubt, however, that he is open to reform longer term.

"We have only half a market, with some limited role for demand-side bidding," he says. Moving further "would need a mechanism for suppliers to say how much power they wanted and at what price. There is increasing evidence that such a market is possible."

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LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Russia ignored public's interests

From Mr Christopher J. Spelcher

Sir, The quote of Mr Boris Yegorov, Russia's former finance minister, exemplifies the careless nature in which reform and the privatisation of state-owned enterprises was allowed in Russia.

"Return of the reformer", March 19. To imply that "people don't really care if someone steals Norik Nickel or Gazprom" holds deep implications.

If the public knew such huge enterprises were being sold to small groups of individuals and organised crime units, which it is estimated now control about 50 per cent of the economy (Forbes Magazine, December 30 1996), their reaction may

have come much sooner in the form of election outcomes this past summer and protests in the street as we will see this week.

The lost proceeds of these "nomenclatura" privatisations could have provided the requisite safety net required to implement the still remaining tough reforms in housing and utilities.

The horse is already out of the barn and now the economic farmers of Russia are asking that the barn door be closed. The required medicine of rationalisation, demonopolisation, and then honest, open privatisation of these ill-gotten enterprises is both unpopular among western governments which are

underwriting the reform process and fear any slowdown or reversal, or the small group of very powerful business people who will fight with all their political and economic might. Furthermore, most valuable assets of these enterprises have been sold over and over again in countless arrangements that would make it almost impossible to reassemble them.

It is evident by the comments of Mr Yegorov that no one has been watching out for the best interests of the Russian public.

Christopher J. Spelcher, 1710 Madison Avenue, Dunmore, PA 15508, US

Make CAP fit future

From Mr Robert Sturdy

Sir, Lionel Barber hit the nail on the head with his excellent article on European agricultural policy ("A harsh message reaches Mr. CAP", March 10).

Now, for the first time, all the internal and external pressures are coming together, forcing a fundamental rethink of the Common Agricultural Policy. With the European Union needing to hold its own in world trade talks, take on the challenge of eastern enlargement and observe budgetary rigour, we cannot shirk overhauling the CAP.

Coming on top of all this, the BSE crisis is forcing the pace of change. Speaking in the European Parliament's BSE debate last month, Jacques Santer committed himself to the cause of CAP reform - including key elements of simplification and democratisation. In drafting parliament's report on this year's tight farm price round, I have little margin of manoeuvre; we must take real steps towards making the CAP fit the future.

Robert Sturdy, Conservative agricultural spokesman in the European Parliament, 153 St Neots Road, Hardwick, Cambridge CB3 7QJ, UK

Despair, not stability, in Germany

From Mr Peter Frankel

Sir, When I read the interview with Gerhard Schröder ("Blower and shaker", March 17), I was extremely pleased that a German of his standing finally accepted the fact that the whole ERM concept would not work.

I was also surprised at the reply of Mr Klaus Kinkel, the federal minister for foreign affairs (Letters, March 18). He spoke of "a European-wide area of stability in which the German culture of stability is adopted by our partners..."

What stability is Mr Kinkel talking about? The almost 6m unemployed? The area of instability created in 1989 by the wrong decision on currency exchange with the former East Germany? The fact that all Germans are still obliged to pay for east Germany in addition to their tax? The weakening of the D-Mark against the dollar and against sterling? And a social system so expensive that, unless Germany is prepared to change it, instability will grow day by day?

On my last visit to Germany, I found, in some areas, a feeling close to despair at the high social cost Germany has created in its good years. However, Mr Kinkel clearly confirms the suspicion many people have that Germany wants a German Europe, and his comments indicate that.

I wonder what Mr Kohl will be saying now.

Peter Frankel, "Elmstead", Chapel Road, Limsfield Common, Surrey, RH8 0SX, UK

Expensive advice that increases the cost of doing business

From Mr Martin E. Simons

Sir, The fabulous profits of investment banks, illustrated by Goldman Sachs' first-quarter 1997 pre-tax profit of \$905m (\$589m) ("Goldman Sachs profits jump to \$905m", March 19) which is equivalent to an annual rate of £2.3bn with modest capital or £2 per cent of BP's record 1996 pre-tax profit of £3.7bn, call for comment.

According to City of London estimates, £3bn, or 0.5 per cent of gross domestic product, is being paid as 1996 bonuses to a few hundred bankers, traders, fund managers and others.

The main reason, understandably not reported by Tracy Corrigan, your New York correspondent, are preposterous fees charged by investment bankers and other advisers which appear to be foisted on industry and the likes of provincial UK

institutions like the Halifax and Woolwich, many of which seem mesmerised by their princely advisers.

Outsourcing inevitably fuels the fees fever. Once key in-house skills are lost, companies are at the mercy of their advisers. For 1996 BP's audit fees of £3.1m were up 4 per cent, consultancy, tax advisory and sale of business fees were £7.8m, up 44 per cent, while the costs of other leading accounting

firms at £32m, were up £10m, 45 per cent.

Concern is rightly being expressed about the inflationary impact of the Labour party's proposed windfall tax. Similarly, £3bn of City bonuses, some of which go on year after year, increase the cost of doing business. It is time to call a halt.

Martin E. Simons, 24 Granard Avenue, London SW15 8HJ, UK

Compact to hard disc

Alice Rawsthorn on record companies' plans to spin off into online sales



Developments in store: you may be downloading U2's next album

There will come a time when instead of going to a local record store to buy the latest album by U2 or the Chemical Brothers, it will be possible to order it by modem before downloading it to a personal computer.

This procedure is already feasible, but downloading takes a long time and the sound quality is often erratic. These problems should be resolved soon and, within a few years, purchasing albums and singles in the form of digital signals via a computer could become as commonplace as picking them up in a shop.

The music industry is preparing for an era in which a significant proportion of its products may be sold directly to consumers by digital means, but there are several obstacles.

One is that copyright law does not yet protect music which is sold online. The second hurdle is technical.

How can record companies and their artists prevent the unauthorised digital distribution of their music?

An important step was taken towards resolving the legal problem last year at a meeting of the diplomatic conference of the World Intellectual Property Organisation.

Agreements were concluded to extend the rights of record companies and artists into the digital domain, and to make it illegal to produce or sell unauthorised versions of the encryption systems with which the industry intends to identify its digital signals.

These agreements must be adopted as national legislation by at least 30 countries belonging to the organisation. Similarly, the European Commission must ensure that they are accommodated by its laws. This should be relatively straightforward for most countries.

In the UK, for example, the necessary changes can probably be implemented through subsidiary legislation. Other countries may have to make more substantial reforms. Even so, the music industry seems confident that the process could be completed before the end of this year.

"Can we get 30 countries to ratify this year? I'd hope that we can," says Mr Nic Garnett, director-general

of the International Federation of the Phonographic Industry, the organisation that represents the world's record companies. "I don't see that there'll be any serious problems."

The next hurdle, the technical one, threatens to be more difficult. There are three issues to be addressed:

● Devising an encryption system which will enable record companies to encode, and later decode, their digital signals.

● Establishing digital interfaces to transfer music directly from the archive of one company to that of another.

● Working out a way of embedding a digital signal within the music to identify it and its copyright owner.

In theory, once these systems have been introduced, it should be possible for record companies to identify whether a piece of "digital music" is authorised, and who owns the rights to music in digital form.

Similarly it should be feasible to control access to it, and to ensure that the copyright owner is remunerated whenever the music is used.

where the poor old consumer has to deal with 20 different encoders," says Mr Garnett. The federation is co-ordinating the development of an industry-wide system in conjunction with the European Commission's Esprit programme, which is sponsoring part of the research.

Finding a suitable encryption system should be relatively simple, as similar technology is already widely used by banks, government departments and other institutions which need to control access to their data.

TNO Laboratories, the Dutch research centre, has been commissioned to study various systems and to assess which would best meet the music industry's needs. It started work on the project last September and is expected to complete its analysis in March next year.

The federation is also examining ways of establishing a digital interface which, like the encryption system, will be adopted across the industry. At present most record companies store their music in the form of tape, which tends to deteriorate and, in some instances, is already in poor condition. Several companies have started to digitise their archives, and the IFPI is anxious to ensure that they do so using a common interface.

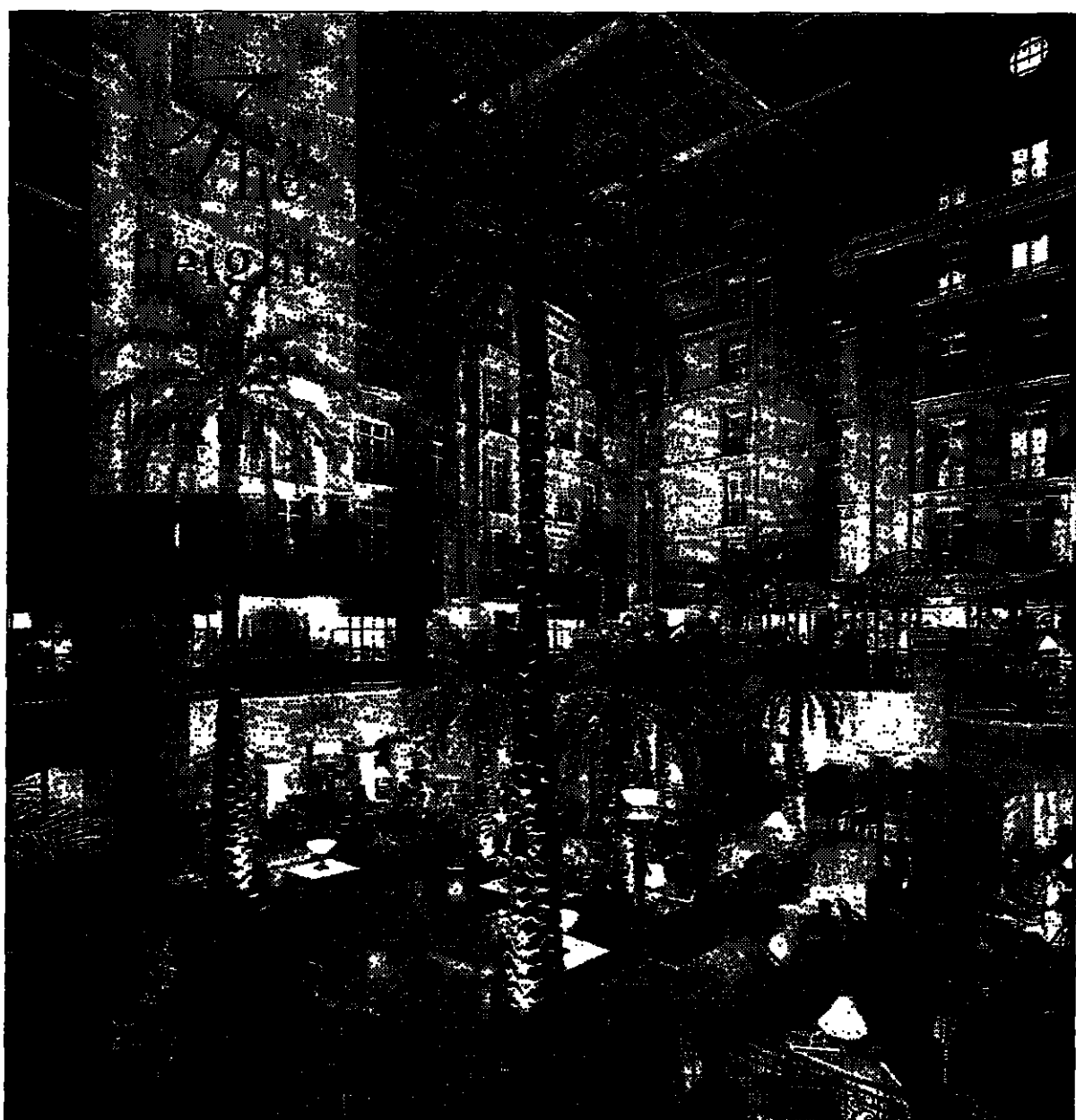
The aim is to find a means

by which music can be digitally transferred from one record company, or copyright owner, to another. For example, Warner Bros. wanted to use a song owned by a PolyGram subsidiary for a movie soundtrack album. The interface will also have to accommodate any new sound carriers likely to come on the market in future, notably the audio version of digital video disc.

Mr Philippe Person, technical projects executive at the federation, says the likeliest solution is to feed the information into the laser beam recorder used to make the notches in the CD which will eventually be translated into music by the CD player.

Research into this issue is under way, as is the development of an embodied signalling system which will enable a piece of music, and its copyright owner, to be identified. Person says this system is likely to involve adding an identification signal to the music at the same time as it is recorded in the studio.

Six companies have developed systems which have been submitted to TNO Laboratories for assessment. TNO will scrutinise each system and report back to the IFPI which will then choose the one best suited to equip the music industry for its entry into the digital domain.



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COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday March 25 1997

Krupp meets its match

Never underestimate the power of a German consensus. That is the lesson of Krupp's decision yesterday to abandon any thoughts of taking over Thyssen, one week after launching an overtly hostile takeover bid.

Officially, the talks between the two on a steel joint venture are going so well that the wider bid can safely be dropped. Both sides say the steel merger will provide 75 per cent of the synergies expected from a full bid, without the risks of such a debt-laden takeover.

But that is only part of the story. Krupp's chief executive, Mr Gerhard Cromme, has been taught a sharp lesson in business realpolitik. From the moment he found himself facing demonstrating steelworkers behind a wall of riot-police shields the scale of the opposition has been clear.

Politicians and trade unionists proved largely unanimous in their criticism of the scheme; few business leaders could be found to support it. Thyssen's condemnation of the bid as "wild west tactics" has proved damningly indelible. Americans might associate their frontier years with individual dering-do; to Germans the period signifies a deeply undesirable state of lawlessness.

The lesson of this episode, and of the government's climb-down earlier this month in its dispute with the coal-miners, is that Germany is not ready to embrace confrontational

change. Despite a generational shift in German business and Chancellor Helmut Kohl's rhetoric about the need to unleash entrepreneurial energies, there is a deep need for consensus and compromise. At the end of this process, there must be no outright winners and losers.

Anglo-Saxon investors too often expect Germany to make an abrupt shift to a different model, in which there are profits to be made from picking the companies that will unambiguously gain from change. In practice, there will be few such clear-cut victories.

It is also wrong, however, to conclude that Germany stands immobile in the face of the challenge of globalisation. In both the steel and the coal examples, change is on the way - relentless, if slower and less decisive than reformers would wish.

Still, the abiding memory of the Krupp bid will be the haste with which Mr Cromme settled for less than he had hoped. The idea of an open market for corporate control has received a clear set-back.

Yet no comparable mechanism to accelerate corporate restructuring is available. The big banks, which would once have played this role, have lost confidence and clout. In this power vacuum, the planned joint venture in steel between Krupp and Thyssen may represent all that can be expected: the grudging acceptance of the second-best.

EU defence

The European Economic Community, whose 40th birthday is being celebrated in Rome today, arose from the ashes of the European Defence Community, torpedoed by the French parliament in 1954. It is in a way fitting, therefore, that France and Germany should have chosen today's meeting of foreign ministers for a fresh drive to bring defence policy within the scope of the European Union, the broad political structure that has been built up with the EEC as its core.

The argument is a familiar one. A common European defence may have been premature in the 1950s, when French suspicions of Germany ran deep and European defence was taken care of by the US. But today working together, even in the military field, has become second nature to France and Germany; while in the post cold war world US willingness to deal with all Europe's security problems cannot be assumed.

The EU is already empowered, by the Maastricht treaty, to "request" implementation of its decisions and actions "which have defence implications" by the Western European Union (WEU), a defence body whose ten full members also belong to both the EU and the Atlantic alliance. Moreover, elaborate arrangements have already been made to enable Nato assets to be used by "combined joint

task forces", under WEU direction. In operations which European allies might undertake with the US blessing, but without direct US participation, the French and Germans would like to strengthen these arrangements by making WEU explicitly an arm of the EU.

So far, so logical. But the objections to moving fast in this direction are also well known. On the one hand, WEU is among other things a mutual defence pact, and the four neutral EU states are not ready to join it as full members. On the other, at least one member state (the UK) is unwilling to endow the EU with competence in the defence field for fear of weakening Nato. Nor is this an area where a Labour government would be likely to alter the UK position before the revised Maastricht treaty has to be signed at the end of June.

The most France and Germany can hope, therefore, is that the Maastricht language will be slightly strengthened, as in the current Dutch draft which refers to "the objective of gradual integration of the WEU into the Union", and says that all EU members will be "entitled" to join in the so-called "Petersburg tasks" of WEU such as peacekeeping. Beyond such moves, the search for an EU defence dimension will not mean much without a more effective common foreign policy.

Oscar's rewards

The film stars who gushed their thanks from the podium at last night's Oscars had much to be grateful for. The changing nature of the celebrity business makes it harder than ever to seize the world's attention - but much more lucrative.

It is relatively easy to become a small-scale celebrity, famous in a restricted market but largely unknown elsewhere. Indeed, the proliferation of narrow-cast media outlets now allows for many forms of specialised celebrity - people who are internationally famous for their tattoos, say, or their victories on the professional windsurfing circuit.

The fragmentation of mass media allows easy creation of this limited notoriety. Simultaneously, it has made it harder to become lastingly famous to a global audience - perhaps harder than at any time since the beginning of the movie era. Anyone can be a little bit famous; but precisely for that reason, real fame is correspondingly harder to acquire.

The relatively few actors who achieve this feat can expect ever higher rewards for their celebrity - up to \$20m for a film performance that will take only a few weeks to complete. This scale of payment does not represent the wages of talent. It does not correlate particularly well with skill. Instead it represents the economic rent of a share of

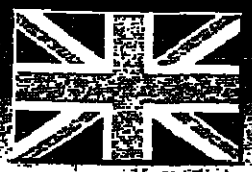
the collective consciousness. Hollywood is at once the creator and the prisoner of this phenomenon. Individual studios and producers struggle to create fame for the actors in their latest films. Once celebrity has been achieved, the industry is trapped by it, paying ever more money to a relatively small number of "bankable" stars, and allowing their caprices undue influence in the selection and creation of film projects.

The industry strives to escape this trap. Independent producers search for unknowns; big studios plump for special effects or animation. In these approaches, economic rents accrue to the producer rather than to the star.

This is always likely to be a minority approach, however. The Hollywood ethos - big budgets, big risks, big potential profits - makes it hard to do without stars. Indeed, as special effects get more complicated and expensive, backers demand a star to justify the investment.

The Oscar ceremony encapsulates Hollywood's relationship with celebrity. Each year, a few newcomers are admitted as candidate members of the truly famous; but the spotlight shines brightest on those who have already joined the club. In economic terms, the most heartfelt thankyou last night was surely the unspoken one: "Thank you for knowing who I am."

Two visions of the Horizon



UK

Co-ordinated air attack

Air attack

Co-ordinated air attack

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Out of formation

Differences over naval strategy between three countries threaten to sink the Horizon frigate project, says Bernard Gray

HMS Sheffield still haunts the Royal Navy. Graphic images of the burnt-out destroyer, hit by an Exocet missile during the Falklands war as its captain talked to London on the telephone, are etched into navy memories.

Some of those young commanders in the Falklands campaign of 1982 are now the admirals charged with designing a replacement for the navy's Type 42 destroyers, the class of ship to which Sheffield belonged. They are almost obsessed with ensuring that the Sheffield incident could never happen again.

The admirals want a ship with a radar able to track any moving target at a range of 50 miles, computers powerful enough to track dozens of targets, and a missile defence system fast enough to shoot down simultaneously eight supersonic sea-skimming missiles to Exocet.

The only snag is cost. With the electronics of modern warships rivaling those of fighter aircraft in complexity, the cost of developing the combat system the admirals want has become prohibitive for a small nation such as the UK working alone.

As with fighter aircraft, Britain has chosen to throw its lot in with other European countries with Project Horizon, a three-nation programme designed to produce 12 ships for the UK, six for Italy and four for France, at a total cost of £7bn.

But in spite of the backing of governments and industry in all three countries, Horizon is not working, because the partners simply do not agree on what the ship should be able to do.

The UK, with its experience in the Falklands, wants a ship capable of defending a convoy spread over a wide area. France, by contrast, wants escort ships to defend specific targets - such as the Charles de Gaulle, its new nuclear-powered and hideously

expensive aircraft carrier. These different operational philosophies put Britain and its two partners at loggerheads. It is much harder and far more expensive to develop the kind of system the UK says it wants than the more traditional Franco-Italian escort. In part, this is because the missiles a French ship would be required to hit would be heading more or less straight for it. All such a French defending Horizon frigate has to do is fire a missile back along the same line to be reasonably certain of hitting the target.

The British ship, by contrast, would have to hit missiles aimed at other ships and often moving at high speeds and at right angles to the Horizon frigate. Firing across the line of such a missile gives just a split second to hit the target.

Co-ordinating such a shoot-out requires a highly sophisticated radar, lots of computing power and a very capable missile - all of which are more expensive than the system France and Italy have in mind. With defence budgets under severe pressure, neither country is prepared to sanction a ship that is more sophisticated than its needs, while the UK will accept nothing less than the full specification.

If agreement on the weapons system is not reached soon, Horizon is in danger of sinking altogether. To avoid the embarrassment of having an aircraft carrier that cannot sail for lack of escort ships, France will need to start building air defence frigates soon. Yet with no agreement with the UK in sight - and the possibility of a defence review in Britain if Labour wins the general election - the UK may delay further, and time could run out for the international project.

The current principal sticking point is the main weapons system, codenamed Paams. The Principal Anti-Air Missile System. Development of Paams has been separated from work on design of the Horizon frigate, which will be put out to tender in each country. However, the complex missile system has to be built by a single industry consortium. This split has caused delays and made co-ordination of the programme extremely difficult.

Paams is based on a Franco-Italian radar and missile combination. This has already been developed by the two countries as part of a family of surface-to-air missiles, led by Alenia, Thomson-CSF and Aerospaiale in the Eurosam consortium.

The UK is broadly happy with the Eurosam missile proposed for Paams, requiring only modest upgrades. But to the great irritation of its partners, the UK rejected the Italian Empar radar before it even signed up to the project, in favour of what it says is a more capable British radar - Sampson, developed by Siemens Plessey.

There is also contention over the battle computers and command and control systems that would interpret the radar images and allocate missiles to targets. The UK wants much more computing power and, while the three countries could simply agree to differ on this, such divergence rapidly destroys the point of a common programme.

The political desire to appear united on the programme could lead to the different weapons being called Paams and Paams Plus. But in reality two systems would be developed under the aegis of a common programme, with all of the cost that implies. There is also no agreement on where those costs should fall.

Industrial problems have also been caused by attempting to fit Britain into the Eurosam programme which is under way. Britain has agreed to pay France and Italy well over £100m for development work already done on Paams once the project starts.

King Kirch

News that Leo Kirch is negotiating a DM1bn bank credit line has stirred renewed interest in the affairs of Germany's premier media mogul.

Rumours that the privately held Kirch Group was in a tight spot have been circulating for some time, certainly long before Rupert Murdoch - another media mogul who knows about flirting with financial disaster - decided earlier this month that British Sky Broadcasting would not take a stake in DF-1, Kirch's costly pay-TV venture.

But the 70-year-old Kirch is

adopted at getting out of difficult situations. Twice in his colourful career - which began with the distribution rights to Fellini's *La Strada* - Kirch has found last-minute solutions; the first time German state television took a block of programmes from him, the second time shopping tycoon Otto Beisheim bought a chunk of Kirch's programme library. The latest episode looks worth watching.

More fall-out from Sweden's plan - bitterly criticised by industrialists - to scrap its nuclear power stations. Three private-sector directors are stepping down from the board of Vattenfall, the state power utility at the eye of the storm.

They are being replaced by more malleable types, like Lars Rekke, under-secretary of state at the industry ministry, who takes over as chairman.

But even before the remodelled board could meet for the first time, it lost one new recruit. Kjell Nilsson, chief executive of the mining and rubber group Trelleborg, said yesterday that he had decided not to take up his Vattenfall directorship because he did not want to be a "whipping post".

Industry minister Anders Sundström was more explicit: he said Nilsson told him he had

been "forbidden" from taking the job by Trelleborg's board.

Chew on this
Deutsche Bank chief Hilmar Kopper has never been able to live down using the word "peanuts" to describe small traders' losses when the Schneider property empire collapsed a few years back.

Around 1,000 Thyssen workers - who fear their jobs could be lost in the aftermath of the Deutsche Bank-backed bid by Krupp - yesterday hurled nuts at the bank's Düsseldorf branch.

Although the hostile bid was abandoned yesterday, between 30,000 and 80,000 workers today plan to demonstrate in front of the twin glass towers of Deutsche Bank's Frankfurt headquarters - no matter how friendly the talks on merging the companies' steel operations.

Around 200 buses, 100 trucks and a motorbike cavalcade are expected to cause traffic chaos.

This kind of disruption is rare in Germany's orderly financial capital, though things could change once the new European Central Bank opens its doors. As the normally reticent Frankfurt *Allgemeine Zeitung* suggested yesterday, the ECB could be a magnet for protesters if Europe's high unemployment persists.

100 years ago
The Eastern Question
Although the Eastern Question is still with us, it has ceased to exercise its old disturbing influence. The Greek force under Colonel Vassos remains in Crete, and pig-headedness refuses to budge at the command of the Powers; the Cretan insurgents angrily decline to accept annexation by Greece; the coast of Crete is blockaded by the combined fleet of the six Powers; and, finally, the Greek and Turkish armies are still facing each other and growing mutual defiance across the Macedonian border. All this looks very terrifying on paper, but to those who have watched the course of events, the situation is gradually assuming more of comedy than of tragedy.

50 years ago
Italian Labour For France
An agreement has been signed in Rome by Count Sforza and the French Labour Minister, M. Ambroise Croizat, regarding Italian labour for France. According to the agreement, Italy will send during 1947 200,000 labourers to France in groups of 17,000 a month. France will give Italy 150kgs of coal per day per Italian miner.

Hansenne hands over

Another plum United Nations job is coming up for grabs. Observer hears that Michel Hansenne, director-general of the International Labour Organisation, will not stand for a third term when his mandate expires in two years.

Hansenne, a former Belgian labour minister, informed the ILO's governing body of his decision last week. Colleagues say his timing may have been aimed at ensuring the ILO is not left to choose from second-rate candidates after other UN posts have been filled.

After all, Irish president Mary Robinson - tipped for the ILO job last year - now stands a good chance of becoming UN human rights commissioner following Jose Ayala Lasso's appointment as foreign minister of Ecuador. The top job at the World Health Organisation is also attracting heavyweight contenders; Gro Harlem Brundtland, former prime minister of Norway, has been widely tipped for the job, though UN secretary-general Kofi Annan is said to want her to work as his deputy in New York.

Whether someone of similar standing comes forward to head the ILO remains to be seen. The

OBSERVER

list of possible inside candidates is headed by Karl Tapiola, Hansenne's Finnish deputy.

Old boy

Meanwhile Boutros Boutros Ghali, supported by France in his vain attempt to get another term as UN secretary-general, looks set for a soft landing at the head of "La Francophonie", the collection of 49 French-speaking countries. The job is due to be created in November at the next summit of the Francophonie in Hanou. No one seems to doubt that Boutros will get it - so long as Egypt, where he was once a foreign affairs minister, is prepared to nominate him.

King Kirch

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Chew on this

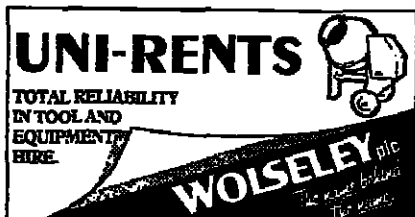
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Financial Times



FINANCIAL TIMES

Tuesday March 25 1997

Russian statisticians accused of manipulating GDP figures

By Chrystie Freeland in Moscow

Government statisticians have been manipulating figures to create the impression the Russian economy has begun to grow, according to a group of independent economists.

Earlier this year, Goskomstat, the state statistics committee, reported that year-on-year gross domestic product had risen by 0.1 per cent in January and 0.9 per cent in February - bringing hope that Russia's decade-long recession was coming to an end.

Mr Boris Yeltsin, the Russian president, seized on the figures as a sign that five years of market reforms were beginning to yield growth.

However, according to Russian Economic Trends, the monthly report of an influential European Union funded think tank based in Moscow, the Kremlin's statisticians boosted their estimate of the size of the hidden economy for this year, but left the 1996 figures, which they were using for comparison, unchanged.

Had Goskomstat not done this, Russian Economic Trends calculates they would have come up with a decline of about 6 per cent in GDP in January. "This is a perpetuation of the Soviet tradition when... for political purposes, information could be falsified," said Mr Andrei Polevsky, an economist at the Moscow-based Institute of World Econ-

omy and International Relations - an independent academic institution - who discovered the statistical sleight of hand.

Having altered their methodology to massage the poor January performance, according to some analysts, the state statisticians were forced to change their calculations again when the economy appeared to rebound too strongly in February.

A separate report by Renaissance Capital, a Moscow-based investment bank, said: "Based on the new methodology, industrial production would have increased by 5 per cent in February." To make the figure more credible, Renaissance Capital speculates "the meth-

odology was changed for a second time to arrive at the 'realistic' estimate of 0.9 per cent."

Mr Roland Nash, an economist at Renaissance Capital, argues that the discovery of the statistical juggling - which he speculates is due in part to leaks from Goskomstat economists angered at being required to massage their figures - is proof that Russia is becoming a more open society.

Goskomstat denies having changed its methodology. The economists who accuse the agency of fiddling the figures, say its estimates of the size of the hidden economy may be accurate but quarrel with its failure to apply the new technique to comparative figures from previous years.

NZ takes butter battle to WTO

By Terry Hall in Wellington and Alison Maitland in London

New Zealand has asked the World Trade Organisation to overturn hefty European Union import duties on its "spreadable" butter, which has captured a sizeable part of the UK market with its ability to be spread straight from the fridge.

The case, the first New Zealand has taken to the WTO, follows months of abortive talks between the government and EU officials.

The EU ruled last year that spreadable butter was not eligible for reduced duties under New Zealand's 76,000-tonne quota for butter imports because it was not "directly

manufactured" from milk and cream.

This means it faces an import duty of about \$2,000 a tonne, compared with about \$700 a tonne on ordinary butter, according to the New Zealand Dairy Board's Anchor Foods, which invented the product.

The board said the EU decision has forced manufacturing to be moved to Belgium at a cost of NZ\$10m (US\$6.95m) a year. This is in addition to NZ\$75m spent building a factory in New Zealand and the promotional costs of launching the butter in Europe.

Spreadable butter, launched in the UK in 1983, accounts for more than 6,000 tonnes of New Zealand's 76,000-tonne EU

quota. New Zealand believes there is a market for 12,000-15,000 tonnes a year.

The argument between New Zealand and the EU rests on the Ammix process. Both it and the traditional Fritz method convert pure cream into butter but the Ammix process breaks the cream down into fats and fluids before reuniting them to make a "softer" butter.

The EU argues that Ammix does not directly convert the cream to butter; New Zealand argues the effect is the same.

"You put cream in one end and butter comes out the other," Mr Neville Martin, New Zealand Dairy Board spokesman, said. "The protocol [on New Zealand butter

imports to Europe] was written before Ammix was invented and was intended to ensure we sold only butter made from pure cream: which we are doing."

The New Zealand Dairy Board is also challenging the decision in the European Court of Justice.

Mr Lockwood Smith, New Zealand trade minister, said yesterday New Zealand was taking the case to the WTO as it represented a clear breach of the obligations.

Under the WTO rules New Zealand and the EU have 60 days for further consultation after which New Zealand can ask for a dispute panel to rule on the issue if it is still not satisfied.

Israel turns to US to break impasse on Mideast peace

By Judy Dempsey in Jerusalem

Israel is looking to the US to save the Middle East peace process from collapse after Israeli troops and Palestinians clashed for the third day running in the West Bank towns of Bethlehem and Hebron.

Mr Dore Gold, the foreign policy adviser to Mr Benjamin Netanyahu, the prime minister, was last night planning to travel to Washington in the hope of breaking the impasse before violence shatters the fragile peace process.

The prime minister's office would not confirm the visit, but government officials said they hoped the US would try to arrange a meeting between Mr Netanyahu and Mr Yasser Arafat, president of the Palestinian Authority, who is on a visit to Sri Lanka.

However, the Palestinians would be loath to accept US mediation given Washington's

recent vetoes on UN Security Council resolutions which condemned Israel's construction of a new Jewish settlement at Har Homa in east Jerusalem.

The effort to break the deadlock comes as the rhetoric on both sides has lost any element of trust, with bitter disputes over who was responsible for the deaths of three Israeli women killed in Tel Aviv last Friday by a suicide bomber from the Islamic militant group Hamas.

Mr Gold said yesterday the Palestinian leadership had given a "green light" to extremists to carry out terrorist attacks on Israel, adding: "If another attack is a result of their green light - which is still on - it will be a serious blow to the peace process."

But Palestinian officials denied they had ever encouraged Hamas and continued to blame the Israelis, saying Mr Netanyahu's decision to start construction work at Har

Homa provoked the violence. Diplomats said that even if Washington did intervene it was difficult to see what concessions either side could make to put the peace process back on track.

Mr Netanyahu, increasingly beholden to the nationalist and far right members of his governing Likud coalition, has said one diplomat, "boxed himself into a corner. He cannot stop work at Har Homa and he cannot give more land to the Palestinians."

Mr Arafat, however, will require some concessions if he wants to maintain his authority among Palestinians before the start of the final status talks on Israel's future borders and the future of Jerusalem.

Other senior Palestinians have warned that the logjam will play into the hands of Hamas. Yesterday the Hamas leadership in Beirut said it was time to "deliver the mercy bullet to the dying peace process".

Hanbo probe reopened

Continued from Page 1

are also new allegations that leading politicians exerted pressure on prosecutors to end their earlier Hanbo investigation quickly.

The homes and offices of two close associates of the president's son were raided in connection with the probe, which relates to Hanbo's purchase of steel manufacturing equipment from SMS, a Düsseldorf company.

The investigation concerns claims by opposition politicians against the president's son, who has already been accused of meddling in state affairs. He was cleared of any wrongdoing in the Hanbo affair in the earlier investigation.

A memorandum discovered in the raid of his associates disclosed that supporters of the president's son were planning a smear campaign against opposition leaders to dissuade them from calling Mr Kim Hyun-chul before a parliamentary committee.

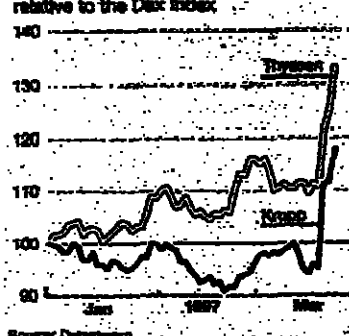
THE LEX COLUMN

Krupp's cop-out

FTSE Eurotrack 200: 2147.7 (-3.2)

Krupp and Thyssen

Share prices relative to the Dax Index



make the Milan bourse attractive to users, with few medium-sized companies coming to the market. Indeed, Gucci, now a \$4.5bn company listed in New York and Amsterdam, was blocked from listing in Italy because of Consob's narrow interpretation of the law. At the same time, investors have been frightened off by Consob's inability to raise standards of corporate governance and transparency from their very low base.

Part of Consob's problem is the unwieldy legal structure under which it operates. Mr Padoa-Schioppa needs to garner political support for amending bizarre takeover laws and arcane rules on areas such as equity issues. He should also encourage changes to a tax system tilted against listed companies - the government's urge to accelerate privatisations should make this possible.

But the main challenge is to build investor confidence. He must persuade companies to adopt the basic principles of good corporate governance. It is a job that more obviously requires the skills of a street fighter than a public servant; but Mr Padoa-Schioppa looks better placed to make a fist of it than his predecessors.

C&W Communications

When Cable and Wireless Communications' creation was announced last October, the partners put a notional value of \$5.3bn (\$8.4bn) on the combined entity. Hurrah, everybody cried, because the value was much higher than the sum of the constituent bits: Mercury Communications, a UK long-distance telecoms group, and

three cable companies. How was this possible? By the simple rule of valuing each of the parts at a premium.

Now, with CWC's flotation imminent, reality is setting in. Though some brokers think CWC is worth \$7bn, the value implied by the share price of Nynex Cable Communications - one of the three cable groups - is only \$4.3bn. And even that looks a stretch.

Nobody denies that the merger makes strategic sense, given the bind the partners were previously in. But, with CWC still investing huge sums to roll out its network, a dividend is several years away. Say the first is paid in four years, by which time CWC's net debt will be around \$2.5bn. If shareholders expect a 12 per cent annual return, CWC's enterprise value will have to be \$3.3bn in 2001 to justify a market capitalisation of \$4.3bn today. Assume further that CWC is then valued on 12 times operating profit and enjoys 20 per cent margins. It would need \$3.9bn in revenue - double last year's.

None of these assumptions is impossible, but each is a touch optimistic. Take a more conservative line and it is easy to value CWC at less than \$3bn. Look at it another way, a \$4.3bn value is almost twice book value. That looks generous to businesses which have been so successful their brands are being scrapped as part of the deal.

Kirch

Germany's Kirch Group has had a bad few months. Take-up of its digital pay-television network has been below expectations; Britain's BSkyB, which was to have financed half the losses, pulled out; and now comes controversy over negotiations for a DM1bn (\$500m) loan. Nothing funny about that, says the company: the money is no intended to stem a cash crisis; it pay-TV and, anyway, it is perfectly normal for companies to borrow money.

Fair point. The oddity is the Kirch is seeking money from Bayerische Landesanstalt für Aufbauförderung (LFA) - literally, the Bavarian state-owned company & financing start-ups. Kirch is hardly a start-up. As for the LFA, this would be one of its biggest advances. It is not surprising rival are muttering about state aid.

Additional Lex comment on U. governance, Page 2

Italian regulation

Next month a new broom will arrive at the Consob, Italy's securities commission, in the form of Mr Tommaso Padoa-Schioppa, who takes over as chairman. It is an organisation that needs vigorous sweeping. Consob has failed to

These announcements appear as a matter of record only.
March 1997



Disposal of
BTR's
interests in
the Taiwan Polymer group
of companies

Restructuring of
BTR's
Dunlop tyre and rubber
interests in
Southern Africa,
Zimbabwe and Zambia

Flemings
acted as sole financial adviser to
BTR plc
in the above transactions

FLEMINGS
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FT WEATHER GUIDE

Europe today

Southern areas near the Ionian Sea will have heavy rain and thunderstorms. Southern Spain will have plenty of sunshine. An area stretching from the Py of Biscay to the Alsace will have cloud and rain. Eastern Europe will also be overcast. Parts of Russia and Ukraine will have some snow. Scotland and Ireland will have rain and fresh westerly winds. England will have sunny periods and gentle north-westerly winds. Northern parts of Africa will be sunny.

Five-day forecast

North-western areas will be cloudy with strong westerly winds and showers. Central Europe will be dry and sunny. Southern regions will continue to have thunderstorms.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Maximum	14	Casaca	14	Faro	14
Minimum	11	Cardiff	11	Frankfurt	11
Abu Dhabi	28	Belgrade	11	Geneva	11
Accra	32	Berlin	11	Gibraltar	11
Algiers	17	Birmm	11	London	11
Amsterdam	9	Bombay	11	Madrid	11
Athens	13	Brussels	11	Manila	11
Atlanta	20	Buenos Aires	11	Mexico City	11
B. Aires	26	Calcutta	11	Miami	11
Bham	12	Chengdu	11	Montreal	11
Bangkok	28	Cairo	11	Moscow	11
Barcelona	15	Cape Town	11	Munich	11
				Nairobi	11
				Nagasaki	11
				Nassau	11
				New York	11
				Nice	11
				Norwich	11
				Oslo	11
				Paris	11
				Perth	11
				Prague	11

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INVESTING IN SOUTH AFRICA

The country is having to temper its aspirations with acceptance of the need for pragmatic – and speedy – policies to attract foreign money, writes Roger Matthews

Facing up to new global realities

South Africa once tested so perilously on the political practice it is perhaps inevitable that it should be weighed by extreme perceptions.

So it was that 1994 was christened the year of the miracle, when the African National Congress took power without the country collapsing into civil war. It was followed by the honeymoon in 1995, when R20bn of foreign capital flowed into the country and democracy began to put down roots and relative peace.

In 1996 the inflow of funds almost dried up, the rand tumbled, crime dominated the headlines, and the government appeared to be floundering.

After less than three months 1997 has been dubbed the year of stability and consolidation, in preparation for the great economic leap forward in 1998. The rand has steadied, money flows have been partly reversed, and Mr Trevor Manuel, the first ANC finance minister, has been transformed from villain to hero in a few months.

Stripped of the emotion, the most consistent theme running through all this is pragmatism. It delivered the political settlement, and it is in the process of establishing a consistent economic approach through which the country can start tackling the daunting legacy of apartheid.

Ideology has been, if not abandoned, at least tempered by the acceptance of the new global realities. The market might not yet rule, but the leaders of South Africa are increasingly

aware that it cannot be ignored.

Mr Manuel summed it up in his budget speech earlier this month: "Job creation requires a steady stream of capital investment. In cases, such as our own, where savings ratios are low, we need to compete to attract savings from elsewhere in the world. For all these reasons, it is imperative we take stock of the disciplines of the global economy. We need to examine continually how we integrate into that economy, without sacrificing our fundamental and implacable commitment to social transformation."

No statement better illustrates the transformation of African National Congress policy, not just in this decade, but particularly since it came into government in May 1994.

There are precise growth, employment and investment targets in the macroeconomic strategy. Privatisation has established itself in ministerial vocabularies, a start has been made on dismantling foreign exchange controls, and a tighter rein on government spending is producing a reduction in the budget deficit as a proportion of gross domestic product.

Part of the lesson was learned the hard way, with the rand suffering a fall of 28 per cent against the dollar at its worst point last year. Its collapse brought home to the government not just the importance of getting policies right, but of achieving a faster rate of delivery. And on that issue, the international investment jury is still out.

Delivery for most ANC members will be judged essentially on the pace of social change, in terms of eradicating the worst poverty, building houses, improving access to education, and more health care. For the investor, foreign and local, it means the creation of a more friendly environment in which businesses can grow.

The two interpretations overlap more today than three years ago, but the political pain of having to translate the policy changes into hard choices has yet to be fully felt.

One visiting investment banker said recently: "We are looking, we are interested, but we are not yet persuaded. Like a number of others we need more evidence before we will be convinced. And until that time it is likely that, in common with others, any commitment we make will be with one eye on the exit."

The pace of change may well prove critical. The government is now aware that international political goodwill does not translate into economic generosity. Many of the companies which left South Africa during the latter years of apartheid have re-established themselves, but as the government acknowledges, there has been a disappointingly low level of new long-term fixed investment.

Similarly, the government's proposals for a fundamentally new type of trade and investment agreement with the European Union, which would recognise its role in assisting the development of the southern African region, has been largely rebuffed.

Mr Alec Erwin, minister of trade and industry, and probably most enthusiastic salesman of the new South Africa in the cabinet, believes foreign investors have been slow to understand the importance of the changes already made. He says that South Africa can compete with most other countries in what it can offer, including political stability, a sophisticated infrastructure, labour flexibility, and export competitiveness. In addition, he believes it can become the manufacturing and trading bridge to link the fast-growing economies of Asia, the Middle East, and South America.

But giving substance to that vision is going to be tough. This year the economy is likely to grow more slowly than the 3.1 per cent achieved last year. This in turn means unemployment will continue to swell, as the mainly white first world part of the economy sheds more jobs, and the predominantly black third world part has yet to attract the labour-intensive investment it needs. The improvement in the current account of the balance of payments, reflecting the slowdown in imports and boost to exports caused by the devalued rand, is only likely to be sustained if labour costs and the worrying signs of renewed inflationary pressures can be contained.

Of equal immediate concern is that the growth in real gross fixed investment fell from 10.5 per cent in 1995 to 7 per cent last year, while the cost of servicing government debt now absorbs 24 cents of every rand in government revenues. Mr Manuel says the debt situation is untenable and unsustainable, but although his budget is designed to reduce the fiscal deficit from 5.1 per cent of gross domestic product to 4 per cent, it remains substantially higher than in most other developing countries.

Further cuts are also likely to prove more difficult as the waste, inefficiency and lax accounting of the previous government is stripped away.

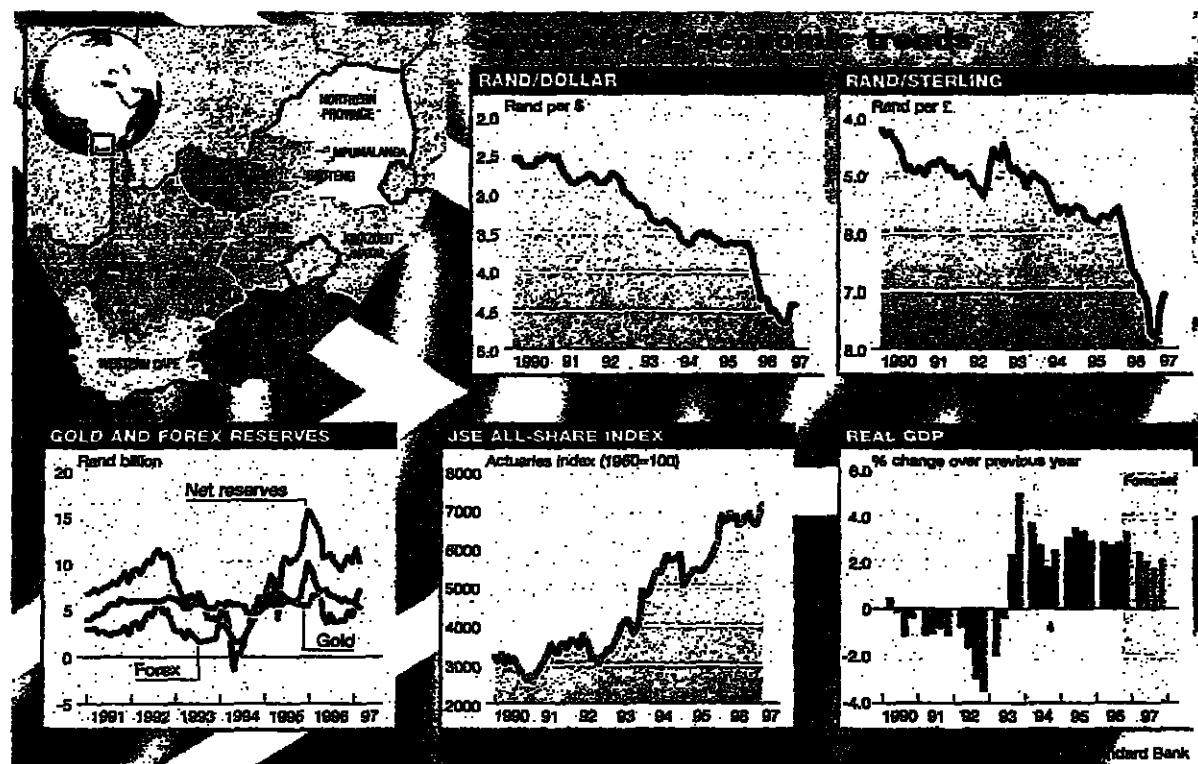
Meanwhile, Mr Chris Stals, the governor of the Reserve Bank, believes it is essential to maintain a very restrictive monetary policy to combat the threat of inflation again reaching double figures. This means little immediate prospect of a cut in the 17 per cent bank rate, in itself one of the most effective deterrents to investment, especially for the smaller and medium-sized enterprises which are looked to by government as the principal source of new employment.

But against that sombre background, hopes are rising that the policy initiatives of the past three years will soon bear fruit. Tariff cuts are exposing companies to international competition and forcing painful restructuring in several industries. Plans for corridors of industrial development are advancing, and none more promising than the one which will

link the central province of Gauteng with Maputo, the capital of Mozambique.

A peaceful southern Africa is allowing for greater economic co-operation. The new labour relations legislation appears to have created an effective framework for resolving industrial disputes, and that part of the trade union movement allied to the ANC, although opposed to many developments in economic policy, has not sought confrontation. Pragmatism may also be taking root in this potentially testing relationship.

Whether these positive developments are enough to deliver the government's goals remains doubtful. It is looking for 6.1 per cent real growth in 2000, with inflation down to 7.6 per cent, and gross private savings at 22 per cent of GDP, the real bank rate down to 3 per cent, and the creation of 409,000 jobs. For that to be achieved the government will have to go beyond its newly-learned pragmatism, and take the bolder decisions demanded by the huge problems it inherited.



Trevor Manuel: transformed from villain to hero

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Roy Terry

What has
a coal mine
in Australia
and an iron-ore
harbour in China
to do
with Iscor?

They are part of Iscor's diversification programme. It requires immense courage to break out of the mould of conformity – to stop doing the things the way they have always been done. It demands that we stand back and examine ourselves and our methods. To seek other ways of moving forward. Iscor's management made such a decision. They are exploring for high-grade coal in Australia and



ISCOR
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have invested in an iron-ore harbour in China, both of which will earn much-needed foreign exchange. They purchased Titanium deposits in South Africa and for the first time will be manufacturing stainless steel, in addition to many steel-related products for the building industry. As new opportunities present themselves, Iscor will take them. For Iscor is diversifying, worldwide.

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2 INVESTING IN SOUTH AFRICA

ECONOMY • by Roger Matthews

Hostage to the vulnerable rand

The government has little room for manoeuvre under the weight of debt

The depreciation of the rand dominated all other economic developments in South Africa last year. In the words of the Reserve Bank: "While the depreciation continued it created uncertainty, increased the risk premium associated with investment in South Africa, deterred potential foreign investment, raised the user cost of capital in the domestic economy, and fuelled expectations of rising inflation."

It proved a particularly harsh baptism for Mr Trevor Manuel, who took over as the African National Congress's first finance minister when the rand's slide was already well under way. However much he, or Mr Chris Stals, the governor of the Reserve Bank, insisted that economic fundamentals were sound, their comments did little to check the currency's collapse.

By the end of the third quarter, the depreciation, coupled with declining business confidence, a worsening current account on the balance of payments, and a marked slowdown in industrial production, provoked increasingly pessimistic forecasts for the year ahead. Some economists estimated that growth could fall to 2

per cent or less.

But the tide began to swing in the last two months of the year.

The current account deficit peaked at an annual rate of R15bn, and then declined progressively to R5bn in the final quarter. This halted the drain in gold and foreign reserves which started to improve in January, assisted by a stronger inflow of capital. There was evidence of a modest slowing in the rate of increase in money supply and domestic credit, while industrial output has started to revive.

The rand stabilised, and then started to claw back some of its 1996 losses. The process was aided by Mr Manuel's budget with its emphasis on fiscal discipline and relaxation of exchange controls.

But even before Mr Manuel spoke, some of the economic gloom had started lift. Growth forecasts for the year are nudging closer to 3 per cent again, although the inability of the agricultural sector to repeat the strong contribution to output it made last year means that will probably be the upper limit of expectations.

Higher rates will be constrained by a tight monetary policy determined by the renewed threat of higher inflation, and the Reserve Bank's commitment to achieving greater currency stability.

Although the rate of increase in consumer prices last year was 7.4 per cent,

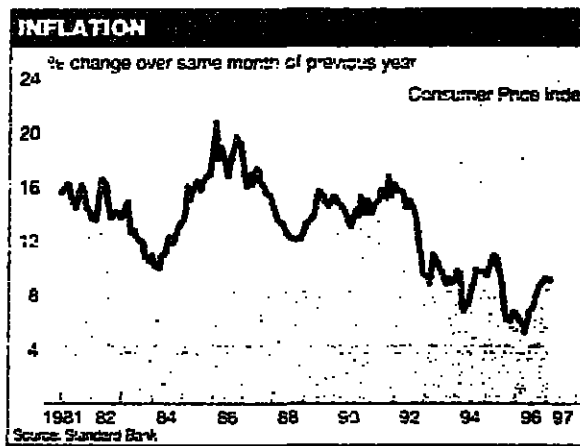
the lowest for 24 years, by the final quarter the annual rate had risen to 11.6 per cent.

Mr Stals believes that the effects of last year's rand depreciation have not fully worked through, and will continue to put upward pressure on inflation.

It was against this finely balanced background that Mr Manuel delivered a budget which received a generally favourable response. He was able to deliver the pledge made by his predecessor that the fiscal deficit would be cut to 5.1 per cent of gross domestic product, and introduced proposals which should reduce it to 4 per cent in this financial year.

The government's longer-term strategy has already set the next goals of 3.5 per cent and then 3 per cent in the fiscal year 1999 to 2000. Mr Manuel accepts there is little room for manoeuvre with debt service costs forecast this year to eat up 21 per cent of total estimated government expenditure, equivalent to 6.4 per cent of gross domestic product. "The bigger our deficit the less money there is to invest in social development, poverty relief and the development of human resources," he reminded MPs.

International investors should have been encouraged by the further steps taken to remove exchange controls. The impact on the rand of allowing South Africans to remit some money



overseas, and to open foreign currency accounts in domestic banks, will not be felt until after July. Mr Stals hopes to have more reserves with which to lean into the wind by then if demand for dollars is higher than expected. He may also be able to count on a substantial inflow of dollars resulting from the sale of a 30 per cent stake in Telkom.

But these more promising developments appear to be having little impact on unemployment. South Africa's most deep-seated and apparently intractable problem. The budget review estimated total employment at 10.2m based on figures from October 1995. This left about 1.7m people or 29 per cent of the economically active population without jobs.

The review also pointed out that job losses in the past year in mining, construction and manufacturing were only partly offset by increased employment in services.

The Reserve Bank, in its latest quarterly review, added that the decline in employment since the second half of 1995 was largely due to efforts by the private

sector to reduce costs and improve efficiency. It also underlined that the "relatively high rate of increase in real wages" last year was only partly offset by productivity gains.

"This increase in real remuneration per worker in an environment of rising unemployment was not in keeping with what could reasonably have been expected under such circumstances," said the bank.

But Mr Manuel remains optimistic. He expects the economy to grow by 2.5 per cent, during this year of "consolidation", the manufacturing sector to expand much faster than in 1996, a considerable surplus to be recorded on the current account, and a higher but slowing rate of inflation as money supply and credit growth both contract.

He is still hostage, however, to the rand's vulnerability, especially to political developments - and to the unanswered question whether the economy can sustain growth rates of 4 per cent and beyond without triggering the balance of payments and inflationary problems which have plagued it in the past.

JOHANNESBURG STOCK EXCHANGE • by Mark Ashurst

Foreigners spark feeling of euphoria

Overseas interest has pushed the all-share index to new highs this year

Brokers at the Johannesburg Stock Exchange have discovered the fickleness of foreign sentiment. After the turmoil that rocked the currency markets last year the new year has brought an extraordinary surge in confidence among foreign investors.

Helped by a modest appreciation of the rand and the steady move on Wall Street, the all-share index has reached new highs this year. Foreign buyers, traditionally deterred by the high price of blue-chip South African stocks relative to other emerging markets, last month boosted trading volumes to a record daily average of R830m.

"The foreign interest has sparked a state of euphoria and the feelgood temperature is running high," says Mr Edward Osborn, economist at stockbrokers Edey, Rogers and Company. "In a much exaggerated and exuberant form, this has the distinct appearance of a re-run of the first six weeks of 1996."

Investors hope the resemblance will not extend to the second six weeks of last year, when exuberance turned abruptly to despair. The collapsing rand wiped out foreigners' gains from two bull years, and dealt a severe blow to national morale. "Everyone has been through a crisis of confidence," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank, "but the rand was not the end of the world."

From December to February this year the all-share index gained 7.3 per cent, buoyed by a leap of 14.4 per cent in the financial index. The total capitalisation of the JSE has increased by 7.5 per cent to R1,215bn over the same period. The market is

still dominated by a handful of local institutions, but the higher trading volumes increased liquidity - measured as a proportion of market capitalisation - to 17.1 per cent in February. A year ago liquidity was 10.3 per cent - a level which many thought would not improve without the abolition of exchange controls.

Much of this reflects increased participation by foreign fund managers. Volumes have increased steadily since the abolition early last year of the traditional open-outcry trading floor in favour of screen-based electronic trading. The trend has been encouraged by new regulations allowing foreign-owned banking institutions to deal in securities, and simultaneously permitting brokers to trade on their own account.

The general confidence does not extend to gold, where some of Johannesburg's oldest stocks have trailed other sectors. At 1,586, the all-gold index is 12.3 per cent lower than its February 1996 level, causing gold stocks to lose much of their lustre as a rand hedge for local investors. The benefits of devaluation, which boosted the net value of gold exports by 16.7 per cent last year and provided a fillip for local mines, have been eroded by the weakness in the global bullion market.

The industrial index has also lagged the all-share index, and in spite of a modest recovery last month remained 0.7 per cent below its level in February 1996. Analysts say the delayed impact of rising exports, and the prospect of a cut in interest rates later this year will enhance its performance.

Other counters - notably Sasol, the synthetic fuel producer, and Persetel, a net exporter of computer software - have benefited from local investors seeking to hedge against currency risk.

Black-controlled businesses have also gained in stature, with most having comfortably outperformed

the market last year. There are now 16 black-controlled stocks which make up 2.5 per cent of the market by capitalisation.

Hopes that the three-year old bull run will continue are encouraged by steady progress in easing exchange controls, and the start of the long-delayed privatisation programme. According to the latest briefing from Standard Bank, the rand could "perform much better in 1997 than was thought possible a month or two ago".

This optimism is shared by ING Barings, which expects foreign inflows to the JSE to top \$2.7bn this year, from \$1,250m last year and \$1,340m in 1995. The bank will be encouraged by the recent fall in marketable securities tax, which was cut from 0.5 per cent to 0.25 per cent in the February Budget. Foreign market funds are forecast to increase their exposure to Johannesburg from last year's average of 4 per cent to 5 per cent in 1997 to 7 per cent by the end of this year.

In spite of these trends, foreign exposure to South Africa remains well short of the 18 per cent recommended in the indices of most multinational ratings agencies and investment banks.

The shortfall is not entirely explained by currency and political risks. It is also due to exchange controls inhibiting what many see as South Africa's potential to emerge as a hub for local and international mining groups with expanding African interests.

Only when these controls are removed will the critical issue of a fair value for the rand be resolved. In spite of persistent efforts, economists have spectacularly failed to devise a formula for valuing the rand. Mr Osborn blames the dominance in the local economy of primary exporters, whose innate productivity problems and dependence on commodity markets has defied analysts' calculations.

POLICIES • by Roger Matthews

Cautious approach to problematic legacies

Exchange control, privatisation and competition are more thorny than expected

The three linked issues of foreign exchange controls, reorganisation on the state sector to include elements of privatisation, and competition policy, loom large for potential investors, especially those from overseas.

Equally, for the government these provide three of the most problematic legacies from South Africa's lengthy political and economic isolation. Each, in their different ways, hinder investment, but radical reform requires economic risk and a political willingness to confront established interests.

So far the government has opted for caution. Perversely competition policy, on which the African National Congress shows most political will to make substantial change, is the one on which there has been least progress. In spite of strident statements from the ANC national executive about the urgency of breaking what it describes as the stranglehold on the economy exercised by the country's five biggest conglomerates, the introduction of legislation has been repeatedly postponed. Mr Alec Erwin, minister of trade and industry, says a draft law will be tabled this year.

The arguments were last thoroughly rehearsed in 1995, when Mr Trevor Manuel, then responsible for trade and industry, appeared determined to press ahead with the issue. With the biggest groups directly or indirectly controlling up to 75 per cent of the Johannesburg Stock Exchange, the need for greater diversity of ownership appeared obvious.

Mr Manuel was told several times by visiting trade groups that entry to the market was blocked in effect, in part because companies would be forced to rely on suppliers controlled by their main competitors. But whether this dominance should be tackled by seeking

to force the conglomerates to unbundle, or by imposing hefty penalties on those proved to be abusing a dominant position, was not satisfactorily resolved.

The conglomerates argued in response that it was the efficiency of the companies they controlled which made it difficult for foreigners to compete, and warned that forced sales would be vigorously opposed, not least because of the damage it would inflict on investor confidence.

When Mr Manuel showed the draft bill on competition policy to legal advisers, he was warned that it was so full of loopholes, and so poorly constructed, that it needed substantial revision.



Chris Stals rejects the 'big bang' method

Perhaps the most telling argument advanced by the conglomerates was that, even if they wished to divest, because of exchange controls there was no opportunity to reinvest the proceeds other than in South Africa. The validity of this argument has been broadly accepted by government, which is committed to the progressive abolition of exchange controls but rejects the "big bang" approach demanded by leading industrialists.

In this, the government has the full support of Mr Chris Stals, the governor of the Reserve Bank, and the International Monetary Fund. The risks are just too great. If a "big bang" was followed by a demand for foreign currency which exceeded the reserves, plus additional credit lines, interest rates would have to soar and there might be no alternative to the reimposition of

controls. The damage to the credibility of the ANC government, and consequent political instability, could be severe.

Instead the government will stick to its policy of relaxing controls as conditions permit. The latest instalment came on the March 12, when Mr Manuel in his first budget as finance minister, announced a package of measures which will allow South Africans to remit currency overseas from July 1, or to hold foreign currency accounts in domestic banks. Although the limits have yet to be announced, it is an important first step in gauging the level of pent-up demand for foreign currency among individuals. Should demand prove less than some alarmists fear, further relaxation can be expected.

The regulations affecting the overseas investments of South African companies have been slightly eased, but the government will continue to be cautious in its approach to institutional investors. Insurance companies alone control about R375bn in assets. As a first step they would like to hold 10 per cent of this in foreign assets, a sum three times greater than the government's net gold and foreign currency reserves.

Progress on reorganising the state sector has also turned out to be more complex than the government initially expected, and has been complicated by the strong ideological opposition of the ANC's union allies to privatisation.

The impending sale of a 3 per cent stake in Telkom to R5bn to R6bn will be by far the largest disposal in the next 12 months, accompanied by the sale of the small airline Sun Air, and Aven-tura, the hotel and resort company. The search for a equity partner for South African Airways, and other transport related companies will depend on the reorganisation of Transnet, the state-owned transport sector. The task made more challenging by financial problems caused in part by the underfunding of pension schemes.

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LABOUR • by Mark Ashurst

New constitution for the workplace

There have been fewer strikes but wage inflation and joblessness still persist

Four months after the implementation of the new Labour Relations Act, South African trade unionists are savouring the fruits of their alliance with the ruling African National Congress.

"Looked at from the narrow perspective of immediate worker and union interests," says Mr Andrew Levy, whose industrial relations consultancy counts an array of blue chip companies among its clients, the new legislative framework is "close to an unalloyed triumph" for the labour movement.

The act - a composite of collective bargaining procedures inspired by Germany and the Netherlands, and customised dispute resolution mechanisms modelled on those of North America - has created a new constitution for the workplace.

After decades of industrial strife, exacerbated by the role of trade unions in the anti-apartheid movement, the new system has scored some early successes. Official figures show that under the old dispensation less than 30 per cent of industrial disputes were settled without industrial or legal action. The new mechanisms for conciliation and arbitration claim settlement rates of close to 80 per cent since taking effect in November.

Their effectiveness is due in part to the role of industry-level centralised bargaining structures, which have shifted much of the most contentious areas of negotiation away from the new workplace forums.

"Ironically, the sectoral bargaining procedure takes sectoral bargaining out of the equation on the shop floor," says Prof Clive Thompson, head of the labour law unit at the University of Cape Town. "They provide an economic floor across a whole industry, without sacrificing the scope for enterprise-level agreements. There is an explicit second channel for negotiation through workplace forums."

This parallel structure has been criticised as excessively complex by many businessmen, who acknowledge its sophistication but say that institutionalised bargaining fits in the face of several well documented trends. They say that the new system will simply encourage the shift towards more informal types of employment, increased use of temporary staff, outsourcing of non-

core activities, and the replacement of manpower with machines.

Such trends highlight the problems of correcting the exploitative labour practices of apartheid without compromising flexibility in an increasingly uncertain labour market. Yet many of the act's creations have antecedents in the apartheid era. Its underlying logic of parallel bargaining structures owes much to the companies which, in the 1980s, reacted to unions' suspicions of ministerial appointees to the Industrial Court by developing extra-statutory systems.

The greatest concern among businessmen is that the shift to a less adversarial system has yet to foster a reduction in the rate of wage inflation. Collective bargaining has improved the situation. Last year, negotiated wage settlements resulted in average increases of 9.9 per cent, the lowest level since 1986, but overall wage inflation has improved the situation.

After decades of industrial strife, the new system has scored some early successes

tion, which includes sectors not covered by the structures of the Labour Relations Act, rose to 11.25 per cent last year. Measures to reduce controversial wage differentials in the retailing, construction and manufacturing industries resulted in the lowest paid workers in many sectors receiving increases of 15 per cent or more.

These inflationary settlements may have contributed to the relatively low level of strikes. Mr Levy reports that 1.7m working days were lost last year, compared with 1.6m in 1995, which was the lowest since 1988. The figure was boosted by a week-long strike by textile workers, a sector under severe pressure in the wake of tariff liberalisation, and an illegal strike at Anglo American's Rustenburg Platinum, which was condemned by the recognised trade unions.

Few would contest that the stabilisation of industrial relations is the first step in creating an investor-friendly labour market. There is also evidence of an increase in labour productivity, which has increased by about 3 per cent a year since 1995, in spite of the fact that no company has yet achieved a binding agreement on productivity in any of the new negotiating chambers. A simultaneous rise in the productivity of both capital has

fuelled growth of manufactured exports, while the increase in average unit labour costs has lagged wages, and increased by less than 9 per cent last year.

For the ruling African National Congress, these are hollow victories rooted in the persistent problem of increased joblessness. Three years of economic expansion have failed to create new jobs - a situation that the government can ill afford. With the new labour relations framework in place, and one third of the economically active population out of work, the stage is set for reforms which put the needs of the jobless above the interests of the employed.

The first of these measures is the Employment Bill, which will seek to encourage job creation at the expense of overtime for those already in work. According to the International Labour Organisation the level of overtime worked in South Africa is among the highest in the world.

Mr Tito Mboweni, minister of labour, plans to correct this by raising rates of overtime pay - a proposal he hopes will "get more people working rather than getting existing employees working more".

Such reforms are particularly sensitive because of the political alliance between the Congress of South African Trade Unions and the ANC. Unions stalled the government's privatisation programme for much of last year, but ultimately won few concessions in the policy arena.

The government's macro-economic strategy, spelt out in the Growth, Employment and Redistribution document (GEAR), largely ignored union opposition to further liberalisation of the economy.

At the root of the differences lies the question of the future role of the union movement, whose loyalties have been tested by the use of union pension funds to promote emerging black business.

The conflict of interest is particularly apparent in their tolerance, if not support, for the key aspects of GEAR. In spite of tentative support for market-oriented reforms, labour remains resolutely opposed to holding wages to inflation or less, a policy urged by ministers.

While the role of the unions will take time to emerge, investors will have to come to terms with a strong labour movement. "That need not entail an intractable clash," says Prof Thompson. "The sheer discipline of globalisation will have an impact. The unions are not antediluvian."

EUROPEAN UNION TRADE • by Caroline Southey

EU's patience is running out

Diplomats are finding it difficult to accommodate demands coming from Pretoria

The EU's attempt to forge closer ties with post-apartheid South Africa is proving to be one of the most troublesome bilateral deals ever negotiated and is beginning to test the patience of diplomats in Brussels.

Initial enthusiasm when the first ideas on a wide-ranging trade and co-operation pact were mooted two years ago has faded. The prevailing mood is one of distrust between Brussels and Pretoria and tension among the EU's 15 member states over what South Africa should be offered.

South Africa's chief negotiator admits the obstacles are formidable. "Our positions are wide apart, particularly on trade," says Mr Elias Links, the Republic's ambassador to the EU.

He says there is a "growing realisation" in Pretoria that the EU is finding it difficult "to deliver its initial promises. It is easy to agree on objectives but problems arise when it comes to delivery by the 15 member states".

EU diplomats in Brussels admit that the proposed deal with South Africa is proving difficult to negotiate. "The strange thing with these negotiations is that the partner does not seem very interested in striking a deal."

It appears South Africa's political leadership is not really convinced they want an accord with us," an EU

official said.

EU diplomats believe "warm feelings" towards South Africa still exist, but that the EU's patience is "running out".

The main obstacle to progress is the EU's proposal that the two sides should enter into a wide-ranging trade and co-operation pact, which would include the eventual creation of a free trade area (FTA). Under such an agreement both parties are obliged to phase out, over a fixed period, all barriers on the bulk of goods traded.

Pretoria's objection to the plan is that it puts as much onus on the weaker party as it does on the stronger partner. "FTAs are suitable deals for developed countries. They are less appropriate when one country is economically much stronger than the other," a South African trade official said.

South Africa has argued that, given its level of economic development, it should have been offered the preferential trade terms offered to African, Caribbean and Pacific countries under the Lomé convention.

Although South Africa has settled for qualified accession to Lomé without the preferential trade terms, Pretoria remains committed to securing a deal that focuses on its development needs.

Efforts by the two sides to find common ground on the FTA has been further undermined by EU countries insisting that 40 per cent of South Africa's agricultural exports to the EU should be excluded from the deal.

"The question we are asking is whether this is a real

South African imports from EU

	Rand (000)	% of total
Nuclear reactors, boilers, machinery etc	11,803,263	24.51
Electrical machinery and parts	8,739,028	13.99
Other unclassified goods	4,269,438	8.93
Vehicles (except railway) and parts	4,144,458	8.51
Optical, photographic, measuring equipment etc	1,873,830	3.89
Plastics and plastic articles	1,587,575	3.3
Organic chemicals	1,539,748	3.2
Miscellaneous products	1,160,854	2.41
Paper and paperboard	1,103,310	2.29

Source: South Africa Department of Trade and Industry

South African imports from SADC*

	Rand (000)	% of total
Tobacco and manufactured tobacco substitutes	331,585	17.17
Cotton	175,885	9.11
Wood and wooden articles	127,010	6.58
Articles of apparel & clothing accessories	78,827	3.98
Natural or cultured pearls, precious metals etc	68,077	3.58
Nuclear reactors, boilers, machinery etc	65,364	3.39
Iron and steel	60,347	3.13

*Southern Africa Development Community Source: South Africa Department of Trade and Industry

free market agreement," Mr Links says. "The exclusion list is not in line with the objective of securing the growth levels and development such a deal should help achieve."

EU officials believe that South Africa has exaggerated the importance of the exclusion list, pointing out that the farm products represent only 4 per cent of trade with South Africa and that the proposed deal would cover 96 per cent of trade.

"There is no other FTA with that level of coverage," an EU trade official says.

But the issue has delayed progress. South Africa has withheld tabling a detailed response to the EU's proposed mandate. Instead it issued a document earlier this year setting out its arguments for a deal which

would focus on South Africa's development needs.

EU officials believe the absence of a detailed negotiating document from Pretoria is a sign of divisions in the South African government about how to proceed. "The problem is that they don't know what they want," a trade official said.

Nevertheless, EU officials believe differences on an FTA are being narrowed as a result of progress on two key issues - the pace at which the EU will remove trade barriers and an acknowledgement that the deal cannot be allowed to undermine South Africa's trading relations with neighbouring countries.

"Both sides accept that the EU has to open up its markets faster. The EU also accepts that it cannot

demand conditions that will undercut regional markets," the EU official says.

South Africa has argued that any deal with the EU has to take into account regional trade pacts. "We would be hurting ourselves if we just walked out of a customs union with our neighbours. We cannot have a deal with a third party that is detrimental to the others. Any deal with the EU is automatically binding on all customs union countries," Mr Links says.

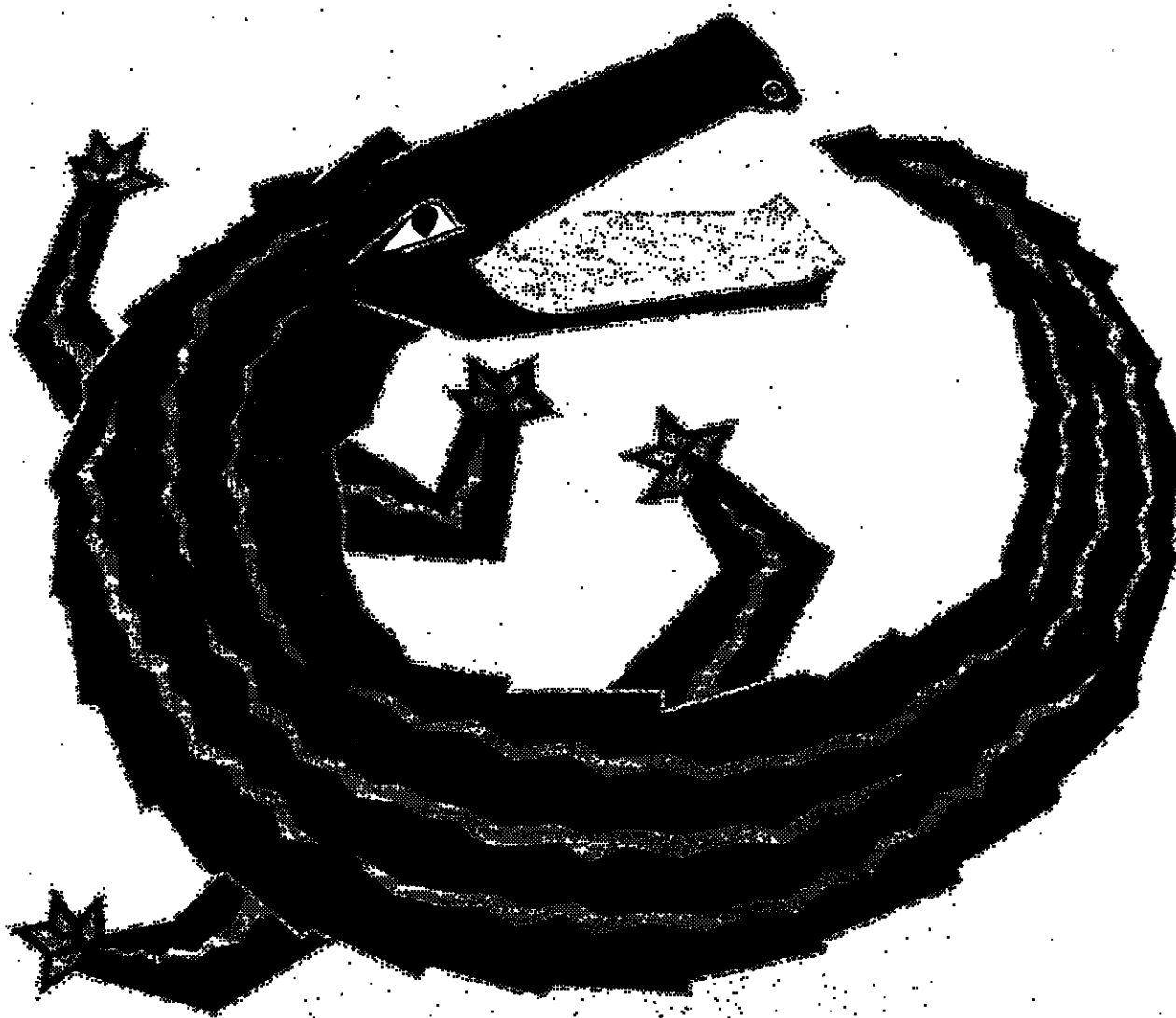
One obstacle at least appears within sight of being settled - agreement on the terms of South Africa's accession to Lomé. Spain had argued that the EU should withhold approval of accession until Pretoria made concessions in other areas of negotiations.

"There is not that much for us economically or financially. In Lomé so there is little incentive to pay a price for it," Mr Links says, although he admits that membership is important for political reasons.

Spain's objections struck a chord with some EU officials involved in negotiations. "Maybe we have conceded too much too early," says one official.

He points out that the EU has already committed ECU125m in funds and a further ECU150m in loans annually over the next four years. "That is bigger than what we do for countries such as Poland and Hungary," the official adds.

Diplomats have not given up hope of concluding a deal. Both sides point to progress in technical negotiations.



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4 INVESTING IN SOUTH AFRICA

FOREIGN INVESTMENT • by Mark Ashurst

Among the many developing countries vying for the attention of foreign investors, South Africa is an obvious anomaly. Judged against the emerging markets indices drawn up by global ratings agencies and investment banks, its share of the world's emerging market funds lags well behind the theoretical targets. Yet, local institutions are loaded with cash, the stock market has sustained its bull run for more than three years, and the prospects for continued growth in corporate earnings are sound.

The discrepancy is unique to South Africa – a country that boasts a relatively mature financial and industrial infrastructure, but was isolated from the outside world by sanctions. "We are not really an emerging market," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank in Johannesburg. "The indices are probably overstated and it will be a long time before people are fully up to weight in South Africa."

As a result, the country is at a disadvantage when competing for foreign funds against more authentic emerging markets, where capital is more easily seduced by higher growth rates. To achieve the government's target of annual gross domestic product growth of 6 per cent by 2000 requires fixed investment of 25 per cent of GDP. "At this stage, that can only be financed by foreign investment," comments Mr Jos Gerson, chief economist at Smith Borkum Hare, the South African arm of the Merrill Lynch group. Last year fixed investment reached about 17.18 per cent of GDP, a level which already exceeds the gross domestic savings rate of 16 per cent among local corporations.

In the wake of last year's volatility, the official targets may be Utopian. After two years of surging capital inflows to the equity and bond markets, and a creeping increase in fixed investment, the sharp devaluation of the rand was a rude shock to many foreigners. By the second half of 1996, the net inflow of long-term capital had ground to a sudden halt.



Jay Naidoo (left) launching the privatisation programme; Leslie Boyd (right): 'we need the know-how'

Asia takes up the challenge

After years of isolation, South Africa is welcoming the return of many multinational companies. Profiles of some of these companies appear on this and the next page

In the December quarter, there was a net outflow of R5.4bn from the private sector, as nervous local corporations rushed to settle foreign debt and foreigners offloaded equity worth R500m on the Johannesburg Stock Exchange. According to Reserve Bank statistics, annual net inflows plummeted last year from R15.1bn in 1995 to R4.9bn.

There have been signs of a swift recovery this year, although longer term investors are still outweighed by short term ones. "Foreign funds are increasing their exposure to South Africa from 3 per cent to around 6 per cent this year, and they will eventually get up to 18 per cent," insists Mr Gerson. Even if this does not happen, the volatility of the rand has been a sobering lesson that may ultimately be in South Africa's best interests. "I notice every time I go to London or New York that there are more people who know about South Africa."

We are becoming less susceptible to event risk," says Mr Maree.

International confidence may be improved this year by liberalisation of the public sector. After much political controversy, privatisation is due to begin in earnest next month with the sale of a 30 per cent equity stake in Telkom, the state-owned telephone utility, to a foreign communications group. The deal is the biggest privatisation in southern Africa to date, and the linchpin of the government's strategy to establish a regional hub for global telecommunications traffic. "None of the government's plans can come to fruition without an information backbone," says Mr Jay Naidoo, minister of telecommunications.

Most bidders have been deterred by the complexities of the transaction, and only one final offer was received from a consortium of SBC Communications and Malay-

sia Telekom before the February 28 deadline. Mr Naidoo expects the deal to raise R5bn-R6bn, which includes a premium calculated on the basis of the projected value of Telkom when its monopoly expires early next century. If this price is achieved, the investment will dwarf the previous record foreign investment of R1.9bn from Petronas, the state-owned Malaysian oil and gas company, for a 30 per cent stake in Engen, the oil company, in July last year.

Both transactions signal the expansionist plans of Malaysian business, a development welcomed by the ruling African National Congress which has sought to forge new economic ties with developing nations. While many western-based companies within the OECD have returned to South Africa by reinvesting in interests abandoned during the sanctions era, Malaysia has no history of previous invest-

ment. Its recent industrialisation, rapid growth and anti-apartheid heritage have enabled a mutual economic interest to emerge from the warm diplomatic ties between the two countries.

Seven Malaysian groups have invested more than R2.8m, mostly in the energy, property and tourism sectors, and analysts expect further inflows. A survey carried out last month by BusinessMap, a local research agency, suggests that Malaysian companies' experience of "growing up in an emerging or transitional economic environment has probably made them less risk averse than western-based companies to South Africa's new political status."

Their activity has been matched by Japan, where multinational car manufacturers have acquired stakes in the local operations of Automakers, assemblers of Nissan vehicles, and Toyota South Africa. Their objective has been to expand outside the established market by developing new distribution networks in the rest of Africa.

A similar logic underpins a spate of joint ventures in the heavy manufacturing sector, of which the latest example is a three-way deal between Komatsu, Itochu Corporation and Anglo American Industrial Corporation. The Tokyo-based groups will inject R90m into a new company, Komatsu South Africa, to supply mining and construction equipment across the continent.

The appeal of new export markets remains the principal motivation for new investment by foreign companies, whether from the east or from the west. In many instances, such as Coca-Cola's recent injection of R500m to install new plant and distribution facilities at its seven South African bottlers, the investment has been matched by local capital. Where local conglomerates are involved, foreign partners are more likely to contribute management skills, new technology or access to international markets. "We seldom need the capital," insists Mr Leslie Boyd, chairman of Anglo American Industrial Corporation. "What we need is the know-how."

Knight Frank

A nation of opportunities

The company has set up in a market it expects will burgeon in the coming decade

Knight Frank, the UK-based international property consultant, had been looking at the South African market for five years before it took the plunge in February and acquired a stake in Multiprop, established in Johannesburg three years ago by Mr Mike Brown and Mr Ian Young.

The company will trade under the Knight Frank name and aim to take advantage of what Mr Brown describes as the "fantastic opportunities that have opened up here since the general election in 1994".

Knight Frank will make "a significant capital injection", allowing the present operation to expand and become the hub of its African operations.

Mr Peter Caroe, Knight Frank's regional chairman, says South Africa is essential to the company's strategy in Africa, where it already has 14 offices in five countries, and to its wider international ambitions. A survey of the South African market by Knight Frank concludes that it is among the largest and most diversified in the world and "should emerge as one of the most important international real estate markets over the next 10 to 15 years".

This is in part due to the impact of having been largely closed to foreign investment for so long. There is minimal foreign ownership of commercial property and the Knight Frank survey shows that ownership is concentrated in government, with about 130,000 properties, and a small number of large institutions. Estimates suggest that these institutions control 60 per

Retail rental profile

Centre	Prime CBD retail rent (p/ha net/month)	Prime suburban retail rent (p/ha net/month)
Johannesburg	105-115	115-125
Cape Town	85-90	65-75
Pretoria	85-90	75-85
Durban	100-110	95-105
Port Elizabeth	35-45	110-120
East London	30-35	n/a

Central business district

Source: Knight Frank Research

Office market (fourth quarter, 1996)

City	Total stock (sq m)	Availability (sq m)	Vacancy rate (%)	Prime rents (p/ha net/month)
Johannesburg	5,257,100	524,975	10.0	45-55
Cape Town	1,511,200	96,200	6.4	35-45
Pretoria	1,548,000	166,100	10.4	30-40
Durban	932,400	98,700	10.6	40-50
Port Elizabeth	55,100	12,750	19.6	30-35

Source: Knight Frank Research

cent to 70 per cent of the market.

The two biggest are Old Mutual and Sanlam, with property portfolios of R10bn to R15bn respectively, followed by Liberty Life with about R6bn, and Southern Life and Anglo American with between R1bn and R3bn.

The market for office space has been particularly buoyant in the past three years, assisted by some foreign arrivals but driven in Johannesburg by the continuing move northwards from the crime-afflicted central business district. Knight Frank says office rents for prime space rose 12 per cent in Johannesburg last year, 17 per cent in Durban, and 30 per cent in Cape Town.

It expects the main South African markets to show an annual rental growth of about 15 per cent over the next five years, or about 5 per cent above the national inflation rate. Even so, the markets will remain considerably cheaper than most other centres in developed economies.

The industrial sector has been following a similar

path, with demand growing strongly, particularly along the corridor between Johannesburg and Pretoria, which is favoured by multinational investors.

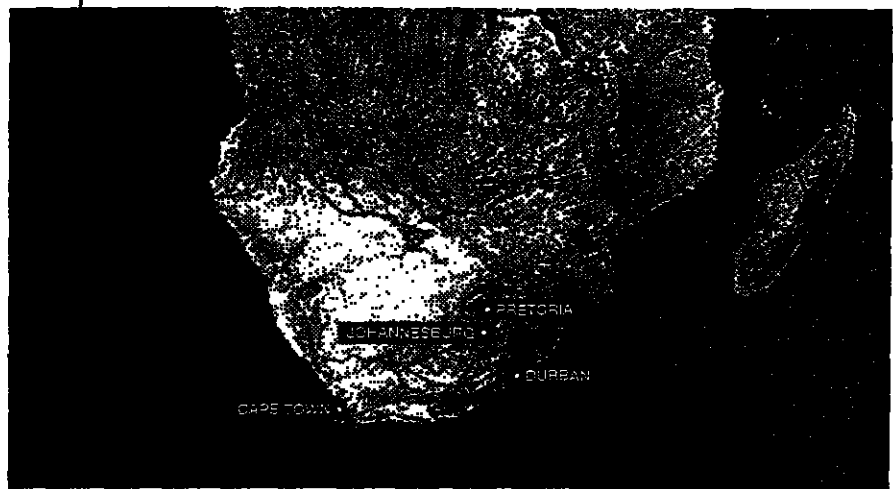
The retail market is more complex. As the Knight Frank survey explains: "It is as if the American mall concept has been interwoven with downtown Bombay, with passing reference to the strip-style development of an Australian outback town."

And while the prosperous mainly white areas are generally well served, the non-white areas "offer enormous potential". But Knight Frank cannot say to what extent the political changes in South Africa will be reflected in the development of new retail centres.

It expects that initially at least newly-affluent non-whites will be drawn to existing outlets, rather than to new, local developments. As with so many other aspects of the new South Africa, Knight Frank believes that detailed research is a critical part of any investment decision.

Roger Matthews

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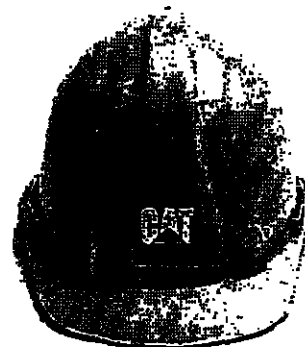
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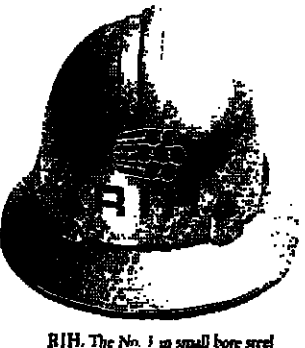
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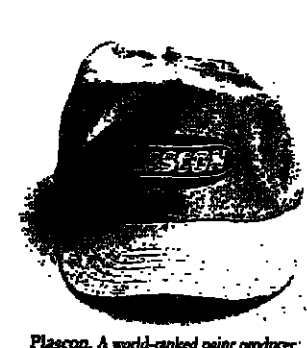
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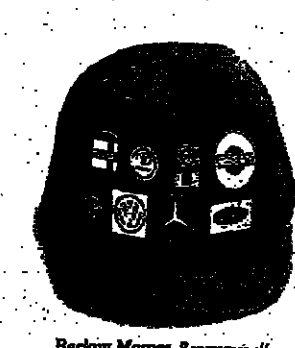
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Ford

US carmaker back in the driving seat

The company's partnership with Anglo American has lifted vehicle sales

Ford returned to South Africa in November 1994, six months after the inauguration of President Nelson Mandela, in a joint venture with Anglo American. Samcor is 45 per cent-owned by each partner, with the balance of 10 per cent of the shares held in a trust for employees.

Since February 1995 Samcor has been the sole supplier of the 1.4 litre engines for the European Escort model.

The group also builds

Mazda, Mitsubishi and Ford vehicles at a plant outside Pretoria. The company is not listed, and Ford will not disclose the value of its cash injection into the new venture. "This was not about capital investment," says Mr Jim Miller, Samcor group managing director. "Cars are not Anglo's core business and they were actively looking for an international automotive manufacturer to manage the business."

The group built its first vehicle assembly plant in South Africa at Port Elizabeth in 1923, and has maintained a presence in the country for 67 of the 74 years since. In July 1985, faced with growing international pressure for sanctions, Ford merged its local operation

with Amcar, the vehicle manufacturing subsidiary of Anglo American Industrial Corporation, to form Samcor.

Two years later Ford divested entirely from South Africa by selling half its stake to Anglo and donating the balance of 24 per cent of Samcor shares to a trust for employees.

On its return in November 1994, Ford bought 31 per cent of Samcor from Anglo and paid R50m to the employees' trust for a further 14 per cent stake. It also resumed operations in the harbour city of Port Elizabeth, where it makes about 400 Escort engines daily, of which more than 90 per cent are exported.

According to Mr Leslie

Boyd, Amic chairman, "Ford was always first prize in our search for an international partner."

The expansion has not created new jobs, but has brought significant changes in human resources policy. Mr Miller says "a handful of Ford employees" were brought in from abroad to strengthen links with the international parent, secure access to Ford technology and guide Samcor into the export market.

On the factory floor about 450 hourly staff were made redundant, from a total of 3,000, and 200 salaried jobs were cut. Of the remaining staff, 400 workers previously employed as contract labour have been given permanent positions.

Productivity improved by 50 per cent last year, which Mr Miller attributes to the redundancies and improved training. One of his first tasks was to hire 12 teachers to conduct full-time, basic education. "I was horrified to learn that 80 per cent of our workers were not literate or numerate, even though most of them can speak six languages," he recalls.

The lessons made Samcor employees "better family and community members and created a more stable workforce. The only sustainable, competitive advantage in this industry is skills and talent."

Samcor does not publish its annual turnover, but Mr Miller says the rise in South

African vehicle sales - up 17,000 last year - was due largely to the increased output at Samcor.

This is in spite of stiff competition from imported vehicles following the dismantling of protective tariffs, which have fallen 50 per cent in the past two years.

The reforms are designed to foster an internationally competitive automotive industry, a goal which Mr Miller says "cannot be achieved overnight. The plan was very well intended, but unfortunately South Africa has been isolated for so long that I don't think there was anyone who understood sufficiently the impact of lowering tariffs."

Mark Ashurst

Microsoft

Beachhead for expansion

Market leadership in South Africa has created a launchpad into other markets

Microsoft entered the South African market in early 1993, after choosing Johannesburg as a beachhead for expansion in Africa. Windows, its best known software, is now the standard operating system in more than 80 per cent of computers in South Africa, says Mr Rob Katz, Microsoft managing director for sub-Saharan Africa.

He estimates that four years ago, when Microsoft

and after sales support. Microsoft's investment in South Africa is "in the tens of millions of dollars," says Mr Katz.

The greatest obstacle to growth is the low penetration of personal computers. Mr Bill Gates, Microsoft's founding chairman, estimates there are only 34 computers per 1,000 South Africans, compared with 300 computers per 1,000 people in the US. "This is a tremendous growth market for us," he said during a visit to South Africa this month. "We view South Africa not just as a launch pad into the rest of Africa but as one of the most advanced countries in its use of technology."

Mr Katz cites sub-Saharan Africa, where he says sales have mushroomed 30-fold over four years, as evidence of this potential. "When we opened, 1 per cent of our revenue came from regional Africa, now that figure is 20 per cent."

He has high hopes that the imminent sale of a 30 per cent stake in Telkom, the state-owned telephone company, to a consortium of US-based SBC Communications and Telekom Malaysia, will establish South Africa as a hub of telecommunications traffic in Africa. This process will encourage the spread of the Internet and stimulate demand for networking software.

To promote awareness of these technologies, the company has donated "significant volumes" of product and expertise to education projects, particularly in disadvantaged communities. More than 3,000 teachers have received computer training under the auspices of Microsoft's "Train the Trainer" programme.

The company sponsored South Africa's first digital village, a computing and resources centre at the Chiavale Community Centre in Soweto, and has pledged to equip a further 100 similar community centres.

Mark Ashurst

Hilton



Armin Schrock: 'You must have an ear close to the ground'

Prime five-star operator

During the next 18 months the hotel chain will invest a total of more than R1bn

Tourism and business travel have such obvious growth potential in South Africa it is surprising that only Hilton, part of the UK Ladbroke Group, among the large international hotel chains, has so far announced a significant investment programme. During the next 18 months it will open hotels in Durban (July), Johannesburg (September), and Cape Town, with a fourth, just south of Ballito on the Kwa-Zulu-Natal northern coast, likely to be finished soon afterwards.

The total investment will be more than R1bn (much of it from Malaysia) and will create well over 1,000 jobs directly while many other employment opportunities will arise in ancillary industries. "The impressive thing about South Africa is that from ground-breaking to completion it is possible to

build a hotel here in 15-18 months," says Mr Armin Schrock, divisional director for southern Africa and general manager of the Sandton Hilton in Johannesburg's northern suburbs.

"South Africa is one of the very few emerging markets which has an infrastructure that is fundamentally good for doing business. In many other places we might be struggling, but not here. In addition, this country has beaches, mountains, wine, game parks, beautiful countryside, and it's all up for grabs. That is why we are moving so fast to establish ourselves as the prime five-star operator in the country," he says.

The key to a successful investment, according to Mr Schrock, is to make sure entry into the market is structured carefully. "You must have an ear close to the ground, and to understand what is happening, particularly to demographics," he says. "If you do not anticipate the changes that are taking place you could be in trouble." He is relieved to have rejected a proposal

for the Johannesburg hotel because the site now looks far less attractive as the business centre of the city moves progressively north.

But once established the prospects for further growth look promising. Although each of the three principal hotels has its own core market - Johannesburg for business travellers, Durban as an adjunct to the new conference centre, and Cape Town a mixture of business and tourism - the opportunity to tempt clients to stay for an extra day, or three, opens up the market for secondary destinations.

The Hilton Zimbal resort hotel, within an easy drive of Durban, yet close to beaches, a bird sanctuary, a new golf course, and eventually the new international airport, shows the way forward.

But it is not all plain sailing. Staffing, productivity, and the government's ability to bring down crime levels will all impinge heavily on the success of new hotel ventures. "There is no problem about job applicants. Mr Schrock has already

received well over 4,000 applications for the 336-bed Sandton Hilton, which will operate on the ratio of about one employee for each room. A local agency will whittle applications down to about 1,000, each one of whom will be interviewed personally by the general manager.

"We prefer to find our own staff, rather than take from others," says Mr Schrock. "That way it is easier to reach our own standards. And because this is a country in transition we need people with a wider focus. Sometimes they can be too concentrated on a particular issue. You have to get people on your side. If you do not you are in trouble. We have to give them the tools to do the job, to provide the skills they need."

Mr Schrock prefers not to speculate on occupancy rates and their relation to profitability. "There's no common pool from which we can draw information, but once we've been open for three or four months we'll know."

Roger Matthews

Prudential

Managing a bit of variety

Financial services are the way back to South Africa for the UK's life assurers

Prudential, the UK's biggest life assurer, opened its first branch office in South Africa in 1932. The business was sold to Liberty Life in 1997, when sanctions forced the group to abandon a market share of 7 per cent.

In April 1994 Prudential was among the first foreign financial services groups to return to South Africa, and is the only global investment manager in Southern Africa to offer a locally-based asset management service for foreign and domestic clients.

Prudential Portfolio Managers handles assets worth R3.5bn (£487m) from its Cape Town office, of which about 80 per cent is held by South African clients. Mr Graham Mason, chief investment officer, attributes this growth to

its use of novel risk management techniques. "South African fund managers tend to do stock picking, while we use a variety of styles and criteria which are well researched in the UK and the US, but are not yet popular here," he says.

An example is the "lit" fund, launched this year. "This is the first and only fund in South Africa with a mandated value style. We look for value rather than growth, and buy cheap shares with low p/e ratios that are out of favour with other investors," says Mr Mason. Other services include a range of portfolios for the corporate sector, comprising all major asset classes, balanced portfolios and specialist fixed interest and equity mandates.

Mr Mason, a South African who worked with Prudential in the UK until 1992, started the new office but now employs nine staff managing funds on behalf of eight local institutions. These include

the pension fund of Iscor, the steel producer, and African Life, the black-controlled insurance house. He estimates Prudential's market share is close to 1 per cent.

The group does not yet have the administrative capacity to cater for individuals, who have previously been barred by exchange controls from investing offshore. But Mr Mason says that in the wake of the relaxation of these restrictions in the March 12 budget Prudential "may market unit trusts here".

According to official figures, the Reserve Bank has authorised asset swaps and offshore investments by local institutions to the value of R30bn. Transfers worth R17bn have been completed, of which Prudential arranged about R600m. The new offshore funds are subsequently managed by Prudential's sister companies, in line with the group's global strategy of managing assets locally, using local staff.

This policy has encouraged the recruitment of new staff. "There is a skills shortage, but because of our international connections we have attracted people who want a chance to keep up with foreign techniques."

The South African business is a tiny component of a global organisation with offices in eight countries and more than 590bn of assets.

But its activities are expanding into Africa. Prudential currently manages assets for clients in Zimbabwe, and last year opened a new office in Namibia. Next month it will launch a joint venture in Mauritius, which abolished exchange controls in 1995. Prudential will hold 35 per cent of the new company, with the balance held jointly between the State Bank of Mauritius and the State Insurance Corporation of Mauritius. "The whole area is very attractive to us," says Mr Mason.

Mark Ashurst

INVEST IN CAPITAL MARKET BONDS

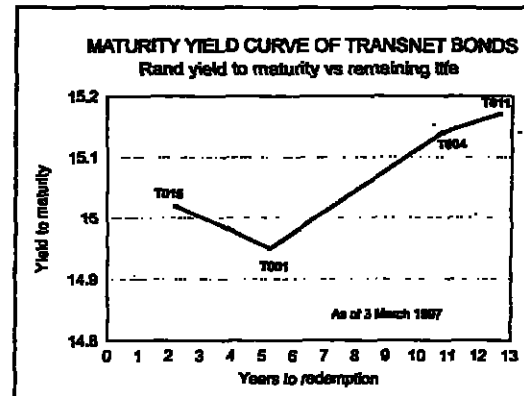
TRANSNET - AN INVESTMENT OPPORTUNITY IN SOUTH AFRICA

Transnet Limited is one of the world's largest transport conglomerates; as such, it plays a vital role in the economy of South Africa. It is a thriving multi-modal transport company built on the principles of excellence. Transnet is worth R40 239 million (£5550 million) in total operating assets and has a workforce of 114,000 employees.

The capital intensive nature of the business Transnet operates, as well as sheer size of the operation, necessitates a sophisticated approach to the financing of the business. This function is executed by the centralised Treasury division with the mandate to raise the funds needed by all divisions and subsidiaries of Transnet.

Transnet's borrowing rationale is centred around upgrading and expansion of its infrastructure and asset base. It does this with regard to the returns which can be generated from its investments and with regard to the economic consequences for both Transnet and South Africa. As managers of the financial risks of Transnet, one of the functions of Treasury is to ensure that the maturity of fixed assets and liabilities of Transnet will closely coincide. As such, Treasury is tasked with maintaining a wide spectrum of funding instruments suitable to the needs of the operating divisions of Transnet and therefore the need for new bonds arise from time to time.

In September 1996 Transnet Treasury introduced the T011 to the South African capital market as a duly authorised bond issue maturing in 2010 with a coupon rate of 16.5% per annum. Payment of interest and repayment of principal on T011 will (like the other bonds) be guaranteed by the South African Government. Liquidity is enhanced through Transnet Treasury's market making activities.



Transnet Rand Denominated Bonds

Bond Code	Redemption Date	Coupon Rate	Issued R million
T007	01 Apr 1997	12.5%	2047
T016	15 Feb 1999	11.5%	3112
T001	01 Apr 2002	12.5%	1837
T004	01 Apr 2008	7.5%	4082
T011	01 Apr 2010	16.5%	7745

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6 INVESTING IN SOUTH AFRICA

INTERVIEW • by Roger Matthews

New gateway to Africa

Alec Erwin, minister of trade and industry, sees opportunities for foreign producers

What advantages does South Africa have for foreign investors over other parts of the world, such as south-east Asia or Latin America?

In terms of the basic environment we have in the last two or three years effected important changes in legislation dealing with our macro-economic situation which is very healthy.

I think we are as attractive as any country at the moment. This, with our political stability, the fact we are a democratic state, means we are a good destination.

But the comparison between us and east Asia may be a little misleading. We are especially important for those investors who see the African market growing, which it is doing. And increasingly we are aspiring to form an important bridge between the rapid growth in South America and in Asia and the Middle East. South Africa is going to become a

very important manufacturing destination for export trade with both regions. We are very strategically located for this sort of south-south co-operation. Is it the case that South Africa is a difficult market for foreign investors to gain a foothold because of the dominance of local conglomerates?

This is a perception of a previous era. An investor whose sole interest is the domestic market will find there is a fairly heavy concentration in a number of areas. But it is very different for an investor who wants to take advantage of both the local and export markets.

When investors look at South Africa as the access point for Africa, and as the fulcrum for trade between South America and Asia, then it is a new story. And we are also seeing signs of deconcentration in the local economy, caused by the way it is opening up, and the stricter implementation of competition policy.

We'll be reviewing competition law during the course of the year. The delays in introducing a new law are mainly due to the tremendous pressure the ministry has been under. We have up

to now been putting most of our energies into the trade and investment situation. Competition policy will become one of our priorities in 1997.

Complaints are often heard, locally and internationally, about labour inflexibility, and relatively high wage levels. Are these justified?

They are both serious misperceptions, and there is independent corroboration of this. On the contrary, we have a pretty flexible labour market. It is not inflexible at all.

First, what the labour ministry will be working on is to streamline that flexibility within our industrial and training strategies.

Second, our unit labour costs are falling quite rapidly. Any investor should have a close look at the South African market, particularly areas such as automobile components, which is a high tech, advanced industry.

South African labour is extremely competitive, skilled, well trained, and usually well organised with unions able to sign quite sophisticated agreements. As has been shown by its export performance, it is highly competitive.

What we shall see in the next year or two is the growing realisation that as a manufacturing destination South Africa is extremely attractive.

What has been your reaction to the response by the European Union to your proposals on trade and development?

We had hoped that we would get a somewhat out-of-the-ordinary package. We think it makes immense strategic sense for anyone interested in Africa's future. Progress was made in one or two areas, particularly on the importance of the Southern African Development Community. But in other areas, I am afraid, there has been very little advance. Agricultural exclusions remain a major stumbling block.

The EU has made a very unattractive proposition. We also remain unclear whether there is an intention to link this to a wide range of other agreements. We have had a somewhat uninspired response to some of the other proposals we made on financial restructuring packages which would allow South Africa to play a much more active role in cross-border investment.



Alec Erwin: we are as attractive as any country at the moment

We have still not been able to see from the EU whether we are going to break some conceptual barriers, or whether it is to be just an ordinary trade agreement. If it is to be no more than that, we do not have the resources to treat it as a priority. Our priorities would then have to turn to SADC, and trade with Asia, the Middle East and Latin America where, without question, the greatest changes in trade and highest growth rates are being achieved.

Following the expected success of the sale of a 30 per cent stake in Telkom to overseas buyers, is the pace of privatisation likely to accelerate?

As we have often indicated, what we are talking about in our public sector – and earlier we were not as clear on this as we are now

– is a massive restructuring. The Telkom deal has been difficult and complex, but is relatively easy compared with the transport and petrochemicals sectors. We need to do quite a bit of financial re-engineering before it makes sense to enter the sort of deal we did with Telkom.

The smaller privatisations, such as the radio stations, Sun Air and Aventura, are going about as fast as could be expected. So it is not a case of government being hesitant to go forward. It is about government's ability to carry out a really massive re-engineering of sectors before we can proceed with deals such as Telkom. We would have made a very serious error if we had moved without proper preparation, and would later have been called to account.

BLACK EMPOWERMENT • by Mark Ashurst

Symbolism starts to lose its shine

The transfer of assets to black ownership will take place more soberly in future

It is easy to be cynical about the transfer of white-owned assets to blacks in South Africa. The process is proclaimed as black economic empowerment, but has been much criticised by elements of big business, the labour movement and the African National Congress for having created a handful of instant millionaires.

Such sentiments are well founded, but perhaps short on perspective. Asset transfers have allowed fears of more radical redistribution among many whites, and underpinned the shift towards market-oriented policies in the ANC. "The importance of these deals is that they have created a symbolic black holding class," says Mr Jos Gerson, chief economist at Smith

owned conglomerate of a controlling interest in a core business. In that context, Mr Khumalo, who spent 12 years with Mr Nelson Mandela on Robben Island, the notorious jail for political prisoners, has also been acclaimed as the most entrepreneurial of the new generation of black business leaders.

A little-known figure outside the financial services industry, Mr Khumalo eschewed the sale of Johnnic, whose portfolio includes a minority stake in South African Breweries. "I couldn't think what I would do with a seat on the board of SAB," he said in an interview. "I am very clear that I am moving into a controlling position." Buying JCI was his first experience of a deal motivated by black economic empowerment, he said. "I have never gone into business because I know Nelson Mandela. That doesn't add anything to the bottom line."

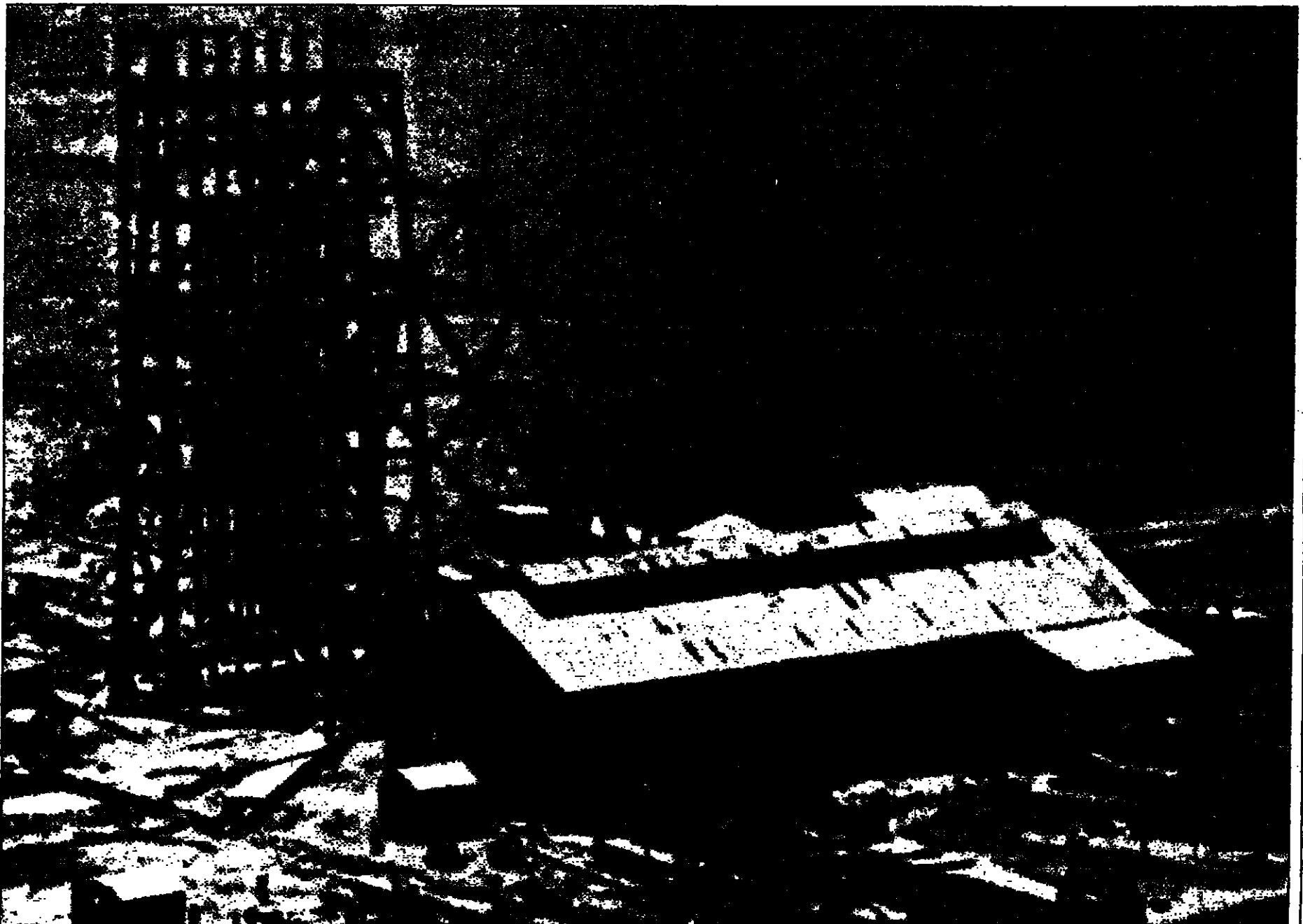
Despite these accolades, African Mining Group has struggled to finance the R2.9bn acquisition. The premium included in the price subsequently doubled as weak bullion prices caused the Johannesburg gold index to drop by 10 per cent in December. A key member of the consortium, Thebe Investments, abandoned the bid, and local institutions were deterred by the decline in JCI's market price. The consortium failed to raise the cash ahead of the February 28 deadline.

The episode highlights the divergent interests of both white institutions, and cash-strapped black businesses, in facilitating such high profile transactions. Ultimately, AMG was assisted by an Anglo subsidiary, Southern Life, which with SBC Warburg, adviser to both Anglo and the African Mining Group, partially underwrote a rights issue at Salsita, a part of the Capital Alliance group. Another Anglo company, First National Bank, provided a bridging loan of R500m.

The sale has boosted the proportion of South African equities controlled by black groups to 2.5 per cent of the market capitalisation of the Johannesburg Stock Exchange. While these groups have comfortably outperformed the overall index, their size is unlikely to be boosted by more asset transfers in the near future. "I don't think there's much appetite left in the market for the big deals," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank.

But while financing pressure will favour smaller deals, there is a clear increase in joint ventures and other ties between established groups and new black businesses. This is evident throughout the retail sector, ranging from security and funeral services to information technology.

"A lot of corporate clients feel there are businesses that would benefit from a different shareholding structure, and are available for sale or joint ventures," says Mr Maree. The era of symbolism is drawing to a close.



IN 1917 SOUTH AFRICA LOOKED LIKE A GOOD INVESTMENT WE'RE ONE OF THE REASONS IT STILL IS

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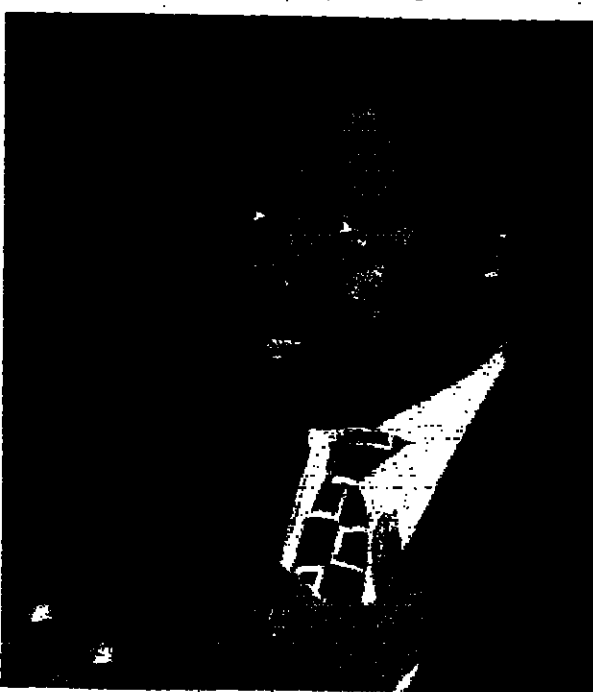
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THE CUTTING EDGE OF THE NEW SOUTH AFRICA



Cyril Ramaphosa: headed a consortium which bought Johnnic

2 JAPANESE FINANCE

BANKING • by William Dawkins

Structural problems remain

Main business is barely profitable, and prospects for the future do not look bright

Equity markets sometimes overshoot, but they rarely lie. That is certainly true of the hammering that the shares of Japanese banks, which number some of the world's largest as well as least profitable, have received over the past six months.

It might, on the surface, seem odd that the share price collapse happened soon after the top 10 commercial banks announced, in their interim results last autumn, the worst of their bad debt problems were over. Non-performing loans had fallen for the first time since the collapse of the asset price bubble six years ago, by 6.6 per cent from the end of the previous fiscal year to March, to ¥14,000bn by the end of September.

And yet, as investors have come to realise, the bad debt problem is only a manifestation of a deeper, structural weakness. Banks' main business, wholesale lending to Japanese companies, is barely profitable. No improvement is in sight.

The bad debt problem on its own is bad enough to continue to give investors the jitters.

For one thing, the scale of the recent bad debt reduction by the big commercial banks, the healthiest in the system, is unlikely to be repeated in the near future. This is because, says Ms Alicia Ogawa, financial analyst at Salomon Brothers Asia, around 90 per cent of the fall in bad loans in the first half of this fiscal year was achieved through an unusual one-off package deal for the resolution of the bankrupt *fusen* housing loan companies. That came with the help of a politically unpopular government subsidy, very unlikely to be repeated.

For another thing, the financial system's total bad debts are still hard to guess

because of the unresolved asset problems of the hundreds of non-bank lenders affiliated to the top banks, but not stated in their balance sheets.

Some estimates put the top 20 banks' total bad debts at ¥46,000bn, nearly 12 times combined annual operating profits, or one-tenth of Japan's gross domestic product. This includes long-term credit and trust banks as well as the big commercial lenders.

While huge, this does not pose a direct risk to the stability of the system, since the finance ministry has guaranteed the top 20's survival until the end of the decade. But a recent series of collapses of non-bank affiliates has forced up the premium which their bank parents must pay to raise money abroad.

For most of the post-war period, banks existed as instruments of industrial policy. Their job was to channel Japan's vast pool of savings to manufacturing industry.

Returns, on admittedly high lending volumes, were low. But shareholders did not object, because they tended to be the very industrial customers who benefited from that dependable supply of cheap debt. The banks themselves were partly compensated by being allowed to form cartels - commercial banks for short-term loans and long-term lenders for capital spending.

That arrangement started to come under strain in the early 1980s when Japanese industrial companies started to move elsewhere, to cheaper and more flexible international bond markets, to borrow money. Japanese law at the time forbade banks from handling bond issues, so they rushed to fill the gap by lending to the then booming domestic property market.

They are only now starting to disentangle themselves from the ensuing property collapse. In addition, long-term credit and trust banks were allowed to underwrite corporate bonds

in 1993, followed by commercial lenders a year later. These limited new freedoms are to be enlarged by more deregulation in the next four years. In the meantime, the competition for straight commercial lending remains cut-throat.

In consequence, the top 10 banks' return on assets averaged a mere 0.53 per cent last year, according to UBS Securities in Tokyo, less than a quarter of the return achieved by US competitor Citicorp.

Lending will probably increase by a mere 2 per cent this year, according to banking analysts, and much of that will be done on razor-thin margins. This matters more to Japanese commercial banks than most because loan interest repre-

sents 85 per cent of operating revenues, far higher than US competitors.

After an unusually good 1996, when Japanese commercial banks' earnings were swollen by one-off bond market gains, it is no surprise that they expect operating earnings to fall by one-third for the year closing at the end of this month.

Worse, the squeeze on profits is long term. Japan remains heavily overbanked, at least for the size of its economy. Even after a decline during the post-bubble economic slowdown, outstanding bank loans currently total ¥475,000bn, about the same as gross domestic product. In the US, the comparable figure is just over one-third of GDP.

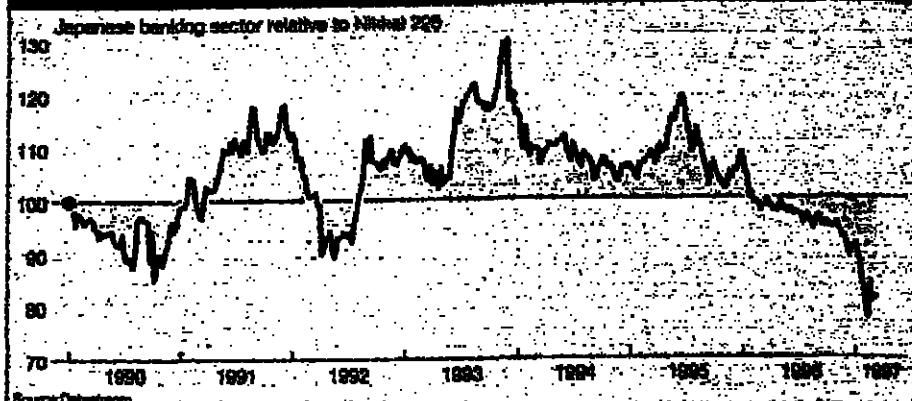
So how are Japan's banks

to haul themselves out of the mire? One way of improving profitability is to cut costs, but no bank has yet announced a substantial job reduction plan.

Another option is to move into more profitable businesses. Many have already opened bond underwriting subsidiaries. The government's plan to eliminate barriers between banking, stockbroking and insurance by 2001 could open more potentially lucrative opportunities. But it will also open the way to greater risks, something which the property lending experience has shown that Japanese banks are ill equipped to manage.

None of this helps banks tackle another problem, the decline in their capital ratios triggered by the more than

BANKS SLIP BEHIND THE MARKET



50 per cent fall in share prices over the past seven years. They are allowed to count unrealised gains on their equity portfolios towards the 8 per cent minimum capital they must hold as a proportion of risk weighted assets, under international regulations.

That leaves Japanese banks with two options: to raise new capital or shrink assets. The top 20 raised, in

total, ¥886bn in new equity last calendar year, but are unlikely to be able to pull in much more than ¥500bn in 1997 because the fall in bank shares prices forced them to miss the early part of this year, says Mr David Threadgold, banking analyst at BZW Research in Tokyo.

As for shrinking assets, so far Sumitomo Bank and Long-Term Credit Bank of Japan are the only two to

have announced serious plans to cut unprofitable lending and sell some of their equity cross holdings.

A growing number of senior bankers and policy-makers now accept that the vital missing element of a real recovery for their industry will be the closure of the many barely-profitable institutions, mostly smaller regional banks, which are unable to adapt.

CENTRAL BANK • by William Dawkins

More autonomy for BOJ

Changes expected to allow faster and more flexible decisions on monetary policy

Japan is about to join the growing list of countries to give their central banks more autonomy. But will it make any difference to the conduct of monetary policy?

The government is planning to submit to parliament a bill proposing to give the Bank of Japan (BOJ) more freedom to set monetary policy. Economists and policy makers feel the change is overdue.

The BOJ was established under the Meiji administration in 1883 as a vehicle for Japan's high-speed industrialisation of the time. Its most recent reorganisation was in 1942, when modelled on Nazi Germany's Reichsbank and made clearly subservient to the finance ministry. Under its present articles, the ministry can order the BOJ to "undertake any necessary business", and the cabinet is empow-

ered to dismiss the governor if he disobeys.

That set-up was deemed suitable for the centrally-regulated Japanese economy of the war and post-war reconstruction, but is widely accepted as less appropriate today, when the need to achieve currency stability in volatile and increasingly global financial markets is the prime aim of many leading central banks.

The BOJ's new role was sketched out in a report by the Financial System Research Committee, an advisory panel to the finance ministry, published early last month. It will be the basis of an amendment to the 1942 BOJ law, for adoption - barring any unexpected political crises - in the current parliamentary session ending in mid-June. The new arrangements would come into effect in April next year.

Mr Toshinobu Fukui, the BOJ's senior deputy governor, says the changes would allow the bank to make monetary decisions faster and more flexibly, and help it gain more credibility from

the financial markets. The proposals would give the BOJ about the same level of autonomy as the Banque de France in that it would be legally free to set interest rates, but must co-operate closely with the finance ministry, according to a former senior BOJ official. In exchange for this greater autonomy, it will be asked to be more public accountable for its actions.

In detail, the main proposed changes are as follows: a new BOJ policy board, to set official interest rates, would include nine members, including the governor and two vice-governors, plus a panel of independent "wise men" from diverse private-sector backgrounds, similar to the albeit larger Bundesbank council. Presently, the BOJ has a smaller seven-man policy board, including two representatives from the finance ministry and the government's economic planning agency, plus an internal directors' board, which is to be scrapped.

Under the new regime, government representatives

would only be invited by the BOJ to attend policy meetings "where necessary".

The finance ministry would have the right to ask the board to delay a decision until its next meeting, but would not, as at present, be allowed to order an indefinite postponement of decisions. The new policy board would meet twice monthly.

For the first time, the policy board would publish its minutes, as do the US Federal Reserve and the Bank of England. This is one of the most important innovations in the proposals, intended to make it clear if and in what manner the government is influencing the central bank. The governor would also have to deliver a written report to parliament twice a year, rather than just once.

Under the new proposals, the BOJ would have more responsibility, though not much more, for its own operations and own budget. The finance minister would no longer be allowed to inspect the bank directly, but could still ask the bank's own auditors to do so. Its budget would continue to be

approved by the ministry but the minister would only control costs relating to activities other than the conduct of monetary policy and would have to publish any reason for rejecting the BOJ budget plans.

The proposals also seek to make clearer on what conditions the BOJ should step in with collateral-free loans to help private-sector banks in trouble - only when such banks run out of cash because of computer crashes or other accidents. It will be up to the finance ministry, rather than the BOJ, to decide whether to bail out genuinely insolvent institutions - a crucial political job, given that the government's ambitious plans for financial market deregulation by 2001 imply that weaker institutions could well collapse in the ensuing competitive earthquake.

What this means for the way the world's second largest economy handles its monetary policy depends most of all on the character of the governor.

Economically, the bank already performs much like independent central banks. No independent central bank ran high inflation rates in the 1980s, but then neither

did a dependent BOJ, with the exception of the sharp rise in asset prices late in that decade. Even despite that experience, Japanese consumer prices have been the most stable of any member of the OECD since 1980, points out Mr Russell Jones, economist at Lehman Brothers in Tokyo.

Yet at the same time it is widely accepted that the BOJ did suffer from unwelcome political interference in 1972, when the government of the time encouraged it to cut the official interest rate earlier than it would have liked, with a consequent short-lived burst in inflation.

Significantly, the proposals say nothing about the long-standing informal agreement under which the governorship alternates between officials of the BOJ and finance ministry, one way in which the ministry keeps an intermittent eye on the bank.

The incumbent, Mr Yasuo Mutsushita, comes from the finance ministry. Having distanced himself from old colleagues by obtaining a more autonomous status for the BOJ, it will be up to him to decide how far to make use of that independence.

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PENSIONS • by Richard Lapper

Liberalisation accelerates

Pressures of an ageing population and funding shortages are forcing the pace

Demographic pressures and chronic funding shortages are forcing the pace of liberalisation in Japan's private pension market. Change, which has been under way in the ¥40,000bn corporate pension fund (or employee pension fund) since 1990, is set to accelerate this year as a result of an important modification in the way fund managers account for investment performance.

The gradual build up of demographic pressures, combined with weak performance by the life insurers and trust banks who have traditionally dominated pension fund management, underpin the rationale for reform.

Japan's population is now ageing at a faster rate than that of any other advanced industrial economy, with the number of people aged over 65 scheduled to reach more than a quarter of its population by 2025 compared to about 14 per cent at present.

Over the past 10 years, however, local pension fund managers have made feeble investment returns, making it increasingly difficult for funds to meet legal obligations to provide a 5.5 per cent annual investment return to scheme members.

Fund management performance has been hampered by restrictive regulation and undermined by the poor performance of the domestic economy in the 1990s. Until recently, fund managers have been subject to strict limits on their investment policy, being obliged to allocate at least 50 per cent of their assets in the low-yielding fixed-income market, and no more than 30 per cent in domestic or overseas equities and no more than 20 per cent in property. The combination is known locally as the 5-3-3-2 rule.

According to recent research by Nikko, the Japanese securities house, returns have averaged only 5.9 per cent annually since 1985 and have fallen below 3.5 per cent during the past two years. Life insurance companies have twice reduced the guaranteed rate of return they offer to pension funds, cutting the rate

last year from 4.5 per cent to 2.5 per cent.

Actuaries suggest that corporate pension funds could be underfunded by as much as 40 per cent. Their problems are particularly severe in declining industries such as textiles - where the number of workers contributing to schemes is falling rapidly and have been highlighted by the collapse of four schemes during 1996.

Reform has proceeded along two channels.

Firstly, the ministry of finance has relaxed the 5-3-3-2 rule since April last year the regulation has been applied only to an individual pension fund as a whole rather than to each of the separate pools of assets administered by a fund's managers (a typical fund might employ half a dozen managers).

Fund managers can also apply to be exempted completely from the rule. So far, pension funds have been cautious to embrace the changes - by December last year, for example, only six funds had applied for exemption from the 5-3-3-2 rule. But the numbers look set to increase, partly as a result of other changes.

Later this year, Japanese accounting rules which have contributed to poor performance are to be overhauled. As a result of changes scheduled to take effect from April, fund managers will need to mark the value of their assets to market prices rather than accounting for them at historic cost. Analysts say that existing arrangements had encouraged managers to sell assets that are performing well and retain those that perform badly.

Secondly, competition has been introduced into the pension fund management industry. Restrictions on the activities of independent fund management companies, usually the subsidiaries of Japanese or foreign securities companies and banks, have been eased. These so-called "independent managers" can now manage new pension fund money and up to half of the existing assets of a fund, rising to all of a fund's assets in 1999.

It has also become easier for pension funds to change their investment managers, while independent managers have won access to a small chunk of the some ¥150,000bn in public sector pension assets.

Nempuku (the Pension Welfare Service Public Corporation), which administers about one-fifth of this amount, has traditionally allocated fund management responsibility to life companies and trust banks. Last year, for the first time, Nempuku was allowed to award contracts to new independent groups, and in April asked a number of independent managers to manage some ¥3,800bn.

Growing activity by the independent managers has been a striking feature of the market in recent months, with the subsidiaries of Japanese securities houses - such as Nomura, Nikko, Yamaichi and Daiwa - and a small number of foreign houses winning significant chunks of business.

Mr Darrel Whitten, director of research at Lehman Brothers in Tokyo, says that between March 1995 and last October the "big four" increased the corporate pension contracts they manage by 85.4 per cent to ¥980bn. By the end of September 1996, 358 funds - or more than one-sixth of some 1,880 corporate funds - had awarded a total of 1,288 contracts to independents,



What does the future hold, Madam Fortune Teller? For Japan's rapidly ageing population, financial hardship without reforms of the country's pensions market

Photo: Ashley Ashwood

according to Nomura Investment Management (Nimco), the security house's fund management arm.

Mr Luke Nobuo Katayama, director of Japanese pension fund investment at Nimco, says his firm has been bidding for up to 10 mandates a week from company pension funds.

Japanese companies are overcoming their initial reluctance to award mandates to foreign groups, according to Mr Clifford Shaw, the president of Mercury Asset Management Japan in Tokyo. M&M, Schroders, Jardine Fleming and Deutsche Morgan Grenfell, and Hill Samuel Asset Management (which has an alliance with Dai-ichi Kangyo Bank) are the foreign groups with the biggest market share, according to industry calculations.

INSURANCE • by Richard Lapper

Shake-up to change face of industry

Foreign insurers lead calls for radical reform of product ranges and prices

Few areas of Japan's "big bang" are likely to prove as controversial as the planned deregulation of the insurance industry.

December's trade agreement between Japan and the US lays down a programme for radical reform of an industry which has been the most regulated within the economically developed world. Under pressure from the US and a handful of foreign insurers, the government has agreed to allow insurers to sell a broader range of products and set their own prices.

If implemented to the letter, the deal will introduce fierce competition into an industry traditionally run - in the words of one local analyst - as a "public service oligopoly".

In the non-life sector, which sells commercial and personal lines policies, five companies - Nippon, Sumitomo, Yasuda, Tokio and Meiji - account for more than half the market. Japan's life business is dominated by eight huge companies.

Rates are set by the rating associations, themselves controlled by the large local companies, and both rates and policy wordings must be approved by the ministry of finance.

Policies are relatively cheap, but by western standards service is slow and the industry inefficient. According to analysts, the expense ratios - operating expenses as a percentage of premiums collected - average 40 per cent, several percentage points higher than in either Europe or the US.

The system is defended in Japan on the grounds that it has secured stability in an industry rocked by a wave of bankruptcies in the 1920s and 1930s. Japanese insurers argue that rate competition will have damaging social consequences and increase risks and claims. For example, they say, moves to allow higher insurance rates for more dangerous or less experienced drivers will result in uninsured cars on the roads.

The association also opposes moves to allow insurers to sell policies by telephone or by direct mail, favoured by foreign companies on grounds of increased efficiency.

Domestic insurers have moved to take advantage of new freedoms introduced before the December agreement. Last April, restrictions preventing domestic life and non-life companies from entering each others' markets were lifted. By the end of November 1996 six of the country's 27 life companies had established non-life subsidiaries, while 11 non-life companies had set up life

companies, according to the finance ministry. But the local industry is still largely opposed to change, which it condemns as too rapid and too drastic.

Pressure for change has come mainly from foreign insurers, seeking to take advantage of their greater efficiency in order to build up their share of the ¥12,600bn non-life market, which currently stands at about 2 per cent.

Since the late 1980s foreign companies have been granted limited access to the non-life market - mainly to write health and personal accident business, known in Japan as "the third sector" - but are now particularly keen to build a share of the motor market, which accounts for roughly half Japanese premium income.

Although foreign companies are free to enter the market they argue that deregulation will be necessary if they are to compete successfully and these arguments have been supported by the US government in its bilateral trade talks with Japan. Some changes were agreed as part of a broader US-Japan accord.

For example, since the beginning of April last year insurers have been able to vary - albeit within tight limits - the amount of the premium which is charged to cover the expenses incurred in underwriting and selling a policy. The finance ministry has also allowed insurers to sell non-life policies by direct mail or telephone, rather than by relying on the independent sales agents who dominate distribution of non-life policies.

American Home Insurance, a subsidiary of the American International Group, began a direct sales operation towards the end of last year, and licences have been awarded to five other foreign companies.

However, the December trade agreement outlines a programme for more radical change. In larger commercial risks, the limit above which insurers can compete freely on price was reduced in January from ¥30bn to ¥20bn. Next April that limit will be reduced to ¥7bn. In July next year insurers will be freed from the obligation to use rates set down by the rating organisations, paving the way for complete price deregulation in January 2001.

On paper these changes meet the demands of foreign insurers and should help them win more business. Mr Ian Carroll, president of the Foreign Non-Life Insurance Association of Japan, believes that foreign companies have more skill in raising both more complex engineering risks as well as standard risks like motor or home and - at least in their own markets - operate more efficiently than their Japanese rivals. Mr Carroll says direct motor "will take off very fast".

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4 JAPANESE FINANCE

THE EQUITY MARKET • by Richard Lapper

Nikkei sharply out of line

Financial reform is expected to lift prices, but some feel there's more pain first

Six years after the Japanese stock market reached its highest level, a combination of fiscal tightening and financial deregulation has sent the market plunging again.

The recent fall in prices has simply underlined the fact that the Nikkei - a star international performer of the late 1980s - is sharply out of line with a trend which has seen American and European equity markets climb to new highs in recent weeks.

Japanese stock values are now less than 50 per cent of their 1989 peak and, although promised financial reform should help the market regain its feet in the longer term - some observers argue that prices have further to fall.

Last December, with the Nikkei 225 trading sluggishly at little more than 50 per cent of its historic peak achieved at the end of 1989, government moves to tighten Japan's fiscal deficit sent the market sinking lower. According to economists, the measures - consisting of a rise in consumption tax from 3 to 5 per cent, plus an end to a temporary income tax rebate - will remove 1.6 per cent from 1997 gross domestic product, a devastating blow for a market already digesting the implications of a downturn in the immediate outlook for economic growth and corporate earnings.

In little more than a month, the Nikkei shed more than one-seventh of its value. Financial deregulation - Japan's "big bang" announced in the autumn - has, in the short term at least, made matters worse. The reform threatens to further undermine the financial sector, whose profitability has been guaranteed historically through highly-regulated and oligopolistic market structures.

The shares of banks, insur-

ance companies and securities houses have been particularly hard hit in the recent sell-off, partly for this reason. In addition, though, many financial sector companies are particularly vulnerable to weakness in the share market since they depend on unrealised share market gains for part of their profits. The overall fall in the market has therefore made their shares even less attractive to investors, in turn contributing to a further decline.

Yet in the longer term the deregulation programme is

in 1980 to under 3 per cent in 1985.

Last April, the rules governing the amount of their portfolios pension fund managers could invest in separate classes of financial assets were loosened. At the same time, both private corporate funds and the public sector's welfare fund (Nem-puku) are now allowed to place a greater proportion of their assets with independent pension fund managers, who tend to favour investments in the domestic equity and foreign securities markets.

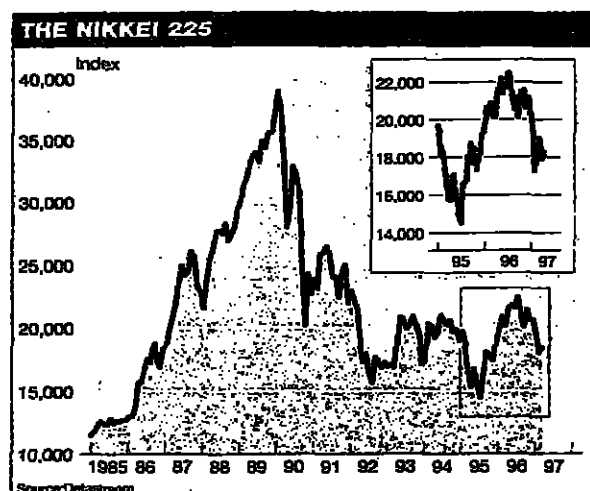
might not advance strongly, Japan will still produce some good performances by individual stocks.

Even so, many analysts argue that a further fall in Japan's equity markets is likely. Even at its current levels, the market - measured by conventional valuation yardsticks - looks hugely overvalued compared with Europe and the US.

Despite its recent decline, the market in mid-February was still on a historic price earnings ratio of about 30, three times the level of the UK, more than twice the level of the US and twice as high as a rapidly-growing emerging Asian market such as Malaysia. The market's dividend yield of 0.85 was less than one-third of that offered by the UK, and half that available to investors in US equities.

Writing recently, Mr Andrew Smithers, of the London-based Smithers and Co., described how the rationalisations frequently used by foreign investors to justify buying Japanese shares have become "increasingly suspect". Many profit forecasts have "been habitually overoptimistic", liquidity has not expanded as the "banking system has acted as a liquidity trap" and "low interest rates have not encouraged individual investors to switch deposits into shares".

In addition, claims that shares can be valued relative to interest rates have been shown to be hollow since "the stock market has more often weakened than risen when interest rates have fallen". According to the so-called "Q" ratio, which compares a measure of the real net worth of corporate equity with the value currently ascribed to it in the stock market, the Tokyo market is at least 60 per cent overvalued, says Mr Smithers. Because land has been such an important part of the corporate balance sheet in Japan, and because land prices have fallen even more than shares, the stock market "appears even more over-priced than it did at the height of the bubble".



necessary for the market's recovery. In a narrow sense it will increase the efficiency of the banks and securities houses. Measures such as deregulation and the removal of barriers separating the businesses of banking and the securities industry should encourage rationalisation. More importantly, it should help Japan's capital markets function more efficiently. Share buy-backs should become easier, potentially reducing the pressure caused by the high level of share issuance in the last couple of years.

The reform of rules governing the operation of the pension fund system makes it easier for fund managers to buy overseas equities and bonds as well as exercise more pressure on local companies to increase a return on capital which has fallen from just under 12 per cent

There are already some signs that the market is becoming more discriminating. Investors suggest that there are now much greater differences between the way different companies perform than was the case in the past.

During the first few months of 1997, as the market has regained some of the ground lost since December, a sharper-than-usual difference has been apparent between Japanese companies. In particular, the shares of companies which benefit from the current weakness of the yen - such as makers of precision equipment and the stronger car and electronics companies - have done well, while those of companies oriented to the domestic market have fared poorly.

Investors point out that while the index as a whole

CASE STUDY

Talk to securities industry analysts in Tokyo and two very different companies tend to crop up as preferred stocks.

One is Nomura, the largest of the "big four" stockbroker firms. The other is the tiny Osaka-based Kosei Securities, arguably the most consistently successful of a handful of smaller companies listed on the stock exchange in the late 1980s.

Kosei has recorded operating profits in each of the last seven years, often bucking the trend in an industry which has been blighted by the stagnation of the Japanese equity market. In the full year to last March, it recorded operating profits of ¥407m on sales of ¥3.25bn.

That performance followed ¥300m on sales of ¥3.39bn in 1995, ¥478m on sales of ¥4.03bn in 1994, and ¥811m on sales of ¥5.14bn in 1993.

The secret is two-fold. Firstly, unlike the majority of the 25 listed securities

A lesson for the big boys

groups it is highly specialised, earning up to half its revenues from trading, mostly of financial derivatives.

Secondly, its founder and chairman, Mr Goro Tatum, has kept a firm hand on costs, reducing staff levels quickly following the collapse of the bubble economy in 1990.

Between a half and one-third of Kosei's income came from derivatives trading in the six-month period to September 1996, although the contribution has been as much as half in recent years.

Unlike the majority of small and medium-sized companies in the sector it has eschewed retail broking and avoided the costs and overheads of the network of

branch offices that go with it.

In the first half of the 1996 fiscal year just under half of revenues came from commission income, but almost all that was earned from a group of commercial clients.

"It is a strategy which is unique in this market," says Mr Paul Heaton, analyst at Deutsche Morgan Grenfell in Tokyo.

The advantage of this focus is that Kosei is perhaps less dependent on the volume of shares traded than any other broker. According to one recent estimate, volume on the Nikkei has only to reach 30m per day before Kosei can break even. For every other broker, a trading volume of at least 250m shares a day is required, and for some medium-sized

companies which expanded their branch networks quickly during the late 1980s volumes have to rise to more than 500m, a figure not exceeded since 1989.

By contrast, Kosei benefits from volatility in the markets, which has been at relatively high levels over the past five years and which can be expected to increase as financial deregulation proceeds. The speed with which Mr Tatum moved to close overseas branches and reduce the domestic branch network makes him out from his colleagues at other firms. Since 1991 Mr Tatum has staffed at Kosei has been reduced from around 600 to 160.

Mr Tatum argues that his organisational structures are flatter and "more agile" than those typical of other securities firms, which makes it possible for Kosei to take decisions faster and respond more quickly to business opportunities.

Richard Lapper

SECURITIES INDUSTRY • by Richard Lapper

Brokers need volumes

Quieter markets have put severe strains on some small firms reliant on commissions

Financial deregulation is set to accelerate the restructuring of Japan's securities industry, much of which has been weakened by the decline in volumes in the equity market in recent years.

Among Japan's more than 250 securities brokers, many smaller firms are heavily dependent on commission income earned on the transactions they carry out in the equity market and are exposed as price competition takes off. Many analysts predict a shakeout, with bigger companies absorbing the weaker rivals. "Japan doesn't need this number of securities companies," says Ms Mineko Sasaki-Smith, chief economist at CS First Boston in Tokyo.

Commission rates on transactions over ¥1bn were liberalised in 1994, and the ministry of finance said in November that fixed commission rates - which vary from 0.1 per cent to 1.15 per cent - would be scrapped later this year, bringing Tokyo into line with New York and London.

In the meantime, competition in the small over-the-counter market has already given the industry a taste of things to come. Since Matsui, a small independent broker, announced a reduction in its commissions in early February this year a stream of foreign and domestic companies have followed suit. Within hours of the Matsui announcement, Paribas Capital Markets said it would match the cuts, and its example was soon followed by Credit Lyonnais and Nippon Securities.

Mr Paul Heaton, senior analyst at Deutsche Morgan Grenfell in Tokyo, says that by the end of the month 40 brokers had discounted rates, most by between 50 and 60 per cent. "It clearly sets a precedent for the listed markets," he says.

Commissions are a particularly sensitive area for smaller brokers, who rely on them for between 90 and 100 per cent of their earnings. But even the "big four" brokers - Nomura, Nikko, Daiwa and Yamaichi - earn an average of 46 per cent of their earnings from commissions.

Even though average volumes traded on the Nikkei have risen recently, volumes in the first two months of this year are still way down on those typical in the late 1980s. Trading volumes averaged 419m a day during January and about 440m in February, compared with an average of 389m shares a day in 1986 and an average low of 264m a day during 1992.

Present trading volumes are well below the levels some medium-sized brokers need to break even. When they expanded their branch networks rapidly in the late 1980s volumes were running at more than 1bn a day.

The bigger firms are also more vulnerable to other pressures stemming from liberalisation, and in particular from the gradual removal of barriers separating the businesses of banks and securities firms.

Bank-affiliated securities companies have already seized a sizeable share of the

market for domestic bond underwriting. After rules restricting banks from entering the area were lifted in April 1993, two long-term credit banks - Industrial Bank of Japan and Long-Term Credit Bank of Japan - established securities subsidiaries. Six city banks - Dai-ichi Kangyo, Sakura, Mitsubishi (now part of Tokyo Mitsubishi), Fuji, Sumitomo and Sanwa - followed suit in November 1994.

These bank subsidiaries have increased their share of the market from 9.8 per cent in March 1995 to 25 per cent in March 1996 and, according to Mr Shigeaki Katagiri, president and chief executive officer of LTCB Securities, 19 bank subsidiaries now account for 30 per cent of the market for underwriting new bond issues and 9 per cent of the market for equity-linked issues.

Mr Masashi Suzuki, chairman of the Japan Securities Dealers' Association, complains about the "fairness" of the competition to which the securities industry has been subjected to. He says that the bank subsidiaries are heavily dependent on businesses which have relationships with their parent banks. Nevertheless, he also emphasises the new opportunities being created for the industry by deregulation.

Many brokers have established fund management subsidiaries, which are competing mainly with foreign

firms, for a share of the growing private pension and mutual fund market. According to Ms Alice Ogawa, analyst at Salomon Brothers in Tokyo, brokers distribution fees which are largely generated by sales of investment trusts increased by 22 per cent in aggregate in the first half of the 1996 fiscal year, contributing in large part to

the improved operating performance of several of the bigger brokers.

Mr Heaton describes fund management as the "key growth area" for brokers. More generally, brokers are aiming to gain from the expansion of the local capital market. The recent expansion in profits in bond sales and trading indicates the potential importance of earnings from these sources. During the year to April 1996 bond trading accounted on average for 14 per cent of revenues at the big four, compared to an average of about 5 per cent over the previous 10 years. Significantly, the industry has benefited in particular from the enthusiasm of institutional and retail customers for dual currency bonds and other structured notes.

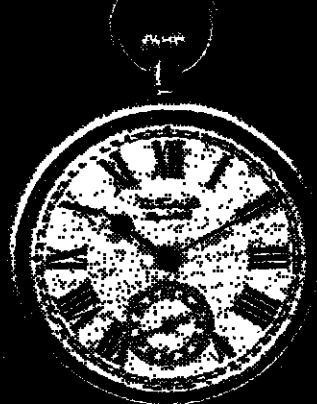
At the same time, however, before they can take full advantage of the new opportunities, Japan's bigger brokers must fully digest losses incurred by financial houses to which they are linked. The losses - which relate to bad property loans - are expected to cut off any remaining exposure to the property market. Even so, they will be sufficiently serious for the big four brokers to report pre-tax losses for the year to March 1997.

Nomura Securities reported in September that it would report ¥371m of losses in the first half of the 1996 fiscal year to support losses at Nomura Finance, for example. Two months later, Daiwa Securities followed suit by announcing it would pay ¥120m to help its Daiwa Finance real estate subsidiary to write off bad loans, again resulting from the decline in the real estate market. Yamaichi then announced a write-off of ¥150bn, and in December Nikko said it was injecting ¥147.5bn into three lending affiliates to enable them to write off uncollectable property-related loans.

Month	Shares traded (m)	Value ¥'000 m
Jan 96	9,805	93,418
Feb	9,480	88,566
Mar	9,747	95,723
Apr	11,880	114,113
May	8,842	88,380
Jun	8,506	88,973
Jul	6,752	69,437
Aug	5,932	60,809
Sep	6,341	66,589
Oct	5,882	61,782
Nov	5,878	65,177
Dec	6,810	75,240
Jan 97	7,978	81,668

Source: Securities Dealers' Association of Japan

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Building the trend: shares on the Tokyo stock exchange were falling while, until last week, London and New York markets rose

DEREGULATION • by William Dawkins

'Last chance to catch up'

After years of discussion in government, the fuse is lit for 'big bang'

In Japan, there is nothing like a sense of crisis to stimulate change.

That is exactly what inspired Mr Ryutaro Hashimoto, the prime minister, to propose last November ambitious plans to deregulate Tokyo's costly and cumbersome financial markets and bring them to the same size and sophistication as London or New York by 2001.

It is nothing less than "our last chance to catch up", says a senior finance ministry official.

It is an ambitious objective. The "big bang" plan includes full liberalisation of commissions on equity sales and insurance premiums, probably from early next year. On top of this, banks, stockbrokers and insurance companies are to be permitted to enter each others' businesses, likely in two years' time. It is as if the US were to launch May Day deregulation and abolish the Glass Steagall Act simultaneously, points out Mr Thierry Forté, president of Morgan Stanley's Japan operations.

The plan, the timetable for which is to be sketched out in more detail by the government in June, also includes a host of detailed measures to allow investors and companies to make full use of their new freedoms.

Pension fund managers, for example, would be free to invest more money in equities, currently restricted to 20 per cent of their portfolios. All fund managers will have to disclose the market value of their investments, so that performance can for the first time be compared with deregulated foreign competitors.

Also planned is a move

towards international accounting standards, so that investors can assess the real value of Japanese banks and securities companies, presently obscured by a web of cross holdings and hidden affiliates. The requirement to obtain a government licence to deal in foreign exchange is to be abolished.

Nothing on this list is new. All these proposals have been circulating in various government committees for years. Some lacked the political push to turn them into reality, others were to be introduced in gradual steps, to allow a soft landing for businesses likely to suffer from increased competition.

What is new is the commitment, at the highest political level, to a deadline, supported by the finance ministry's assumption that weaker institutions must be allowed to fail.

Four months after the launch of the "big bang" objective, the signs are that the government is indeed serious about carrying it out. For the first time in more than half a century, the finance ministry ordered the closure of an insolvent regional bank, Hanwa Bank, shortly after the big bang announcement - a sign that officials really do believe that market forces must be allowed to rule.

Initial progress in preparing the plan's deregulation moves has been rapid. The finance ministry has all but completed draft legislation to remove the few remaining exchange controls from April next year.

The UK's abandonment of exchange controls in 1979 is widely accepted as making wider deregulation inevitable, since it deprived the government of the means to halt a flow of financial business to other less regulated markets. Ministry officials hope that a similarly beneficial chain reaction will take place in Japan.

Deregulation of insurance

premiums has already begun, with the award of licences for foreign insurers to sell out price motor policies by mail order, the first stage of a trade agreement with the US completed last December.

In another step towards a freer financial market, draft legislation is being prepared to award the Bank of Japan greater autonomy, again from April next year. While not formally part of the big bang package, the change would make clearer the respective responsibilities of the BOJ and finance ministry in warding off risks to the stability of the financial system posed by an increase in bank and security company failures, a possible initial consequence of deregulation.

In addition, the ruling Liberal Democratic party and its political partners have agreed in principle to lift a 51-year-old ban on holding companies - probably next year - a move which would help the creation of diversified investment banks enabling institutions to cross over into new and more profitable kinds of business.

Legislation for a freer financial market is one thing. But what also counts is to what extent domestic banks and stockbrokers are prepared to welcome greater competition.

Some domestic players still hope for a soft landing. "The change to international standards will not take place in one go," says Mr Masashi Suzuki, chairman of the Japan Securities Dealers' Association.

But many others are preparing fast and early. Three months ago, two medium-sized stockbrokers, Tokyo-based Maruko Securities and Osaka-based Daiwa Securities, announced a merger, in anticipation of the consolidation expected to diminish their overcrowded ranks. Last month, another medium-sized broker, Matsui

Securities, unilaterally halved commissions on over-the-counter shares, not regulated by the finance ministry. This prompted a wave of discount OTC broking by all its main competitors.

It is not hard to see why the consensus for financial market deregulation has so suddenly taken shape. The Tokyo share price collapse early this year emphasised to many just how disconnected Tokyo had become from other leading financial markets. Equities in London and New York were reaching record highs just as Japanese shares were tumbling, to an average just over half the level of their 1989 peak.

Japan's "big four" stockbrokers, who once resisted the introduction of negotiated commissions, now accept that fixed commissions risk turning Tokyo into a backwater. Again, it is easy to see why. At the turn of this decade, monthly equity trading values in Tokyo and New York were roughly equal. Since then, Tokyo's trading value has fallen 70 per cent, at which level it is one fifth that of New York.

Tokyo is even losing its importance as a market for Japanese equities. Over the past five years, the proportion of Japanese shares traded in London - where commissions were deregulated just over 10 years ago - has tripled to 18 per cent of the total volume in Tokyo.

Will Tokyo manage to catch up again? Deregulation of the financial markets is certainly moving faster than elsewhere in the economy. The main players - that is, senior politicians, the finance ministry and the financial industry - accept that there is no alternative. The main doubt is whether those in favour of a soft landing, which includes a faction in the LDP and the smaller stockbrokers and banks, will be able to delay the process.

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THE BOND MARKETS • by Richard Lapper

Samurais find favour

Low yields in the JGB market have sent investors searching elsewhere

Two very different trends have become increasingly evident in Japan's bond markets over the past 18 months.

On the one hand, historically low short-term interest rates have set the scene for a sustained rally in the government bond market. On the other, as yields on government bonds have fallen, investors - both individual savers and institutions - have become enthusiastic buyers of higher-yielding international bonds, paving the way for a surge in issuance both of emerging market samurai bonds and innovative dual-currency paper.

Sluggish economic growth and a resulting fall in inflationary pressure have underpinned buoyancy in the government market. Despite rises in oil prices and a sharp depreciation in the value of the yen, retail prices actually fell by 0.2 per cent during the 1995 fiscal year and are expected to increase by only 0.3 per cent in the current year.

Loose monetary policy has also pushed down yields. The Bank of Japan reduced the short-term interest rates to 0.5 per cent in September 1996 and has also injected liquidity at the longer end of the yield curve through its monthly Rinsen, or bond purchase operations. These have recently fallen to ¥200bn a month compared with between ¥400bn and ¥800bn a month last year.

As a result, yields are some 3 percentage points lower than those of other OECD markets. During 1996, the yield on 10-year government bonds stayed well below 3 per cent; since the beginning of this year, yields have hovered between 2.3 per cent and 2.5 per cent, and with short-term interest rates expected to stay at current levels for the foreseeable future, some analysts suggest that 10-year yields could drop to as low as 2 per

cent by the end of the year. Japanese institutional investors - including life insurance companies and pension funds, as well as the stabilisation funds set up to manage the loans crisis - have been heavy buyers of government paper.

A survey conducted by Nikko Securities last year showed that domestic Japanese institutions remained confident about further price rises.

These factors have been reinforced by a series of technical and structural changes. As the government moves to rein in fiscal policy - a policy recently evidenced by the tax increases

market is more efficient than existing stock borrowing mechanisms. Brokerage firms and commercial banks are beginning to use it both to finance their holdings of bonds and cover against short positions (which result from sales of bonds which they do not own).

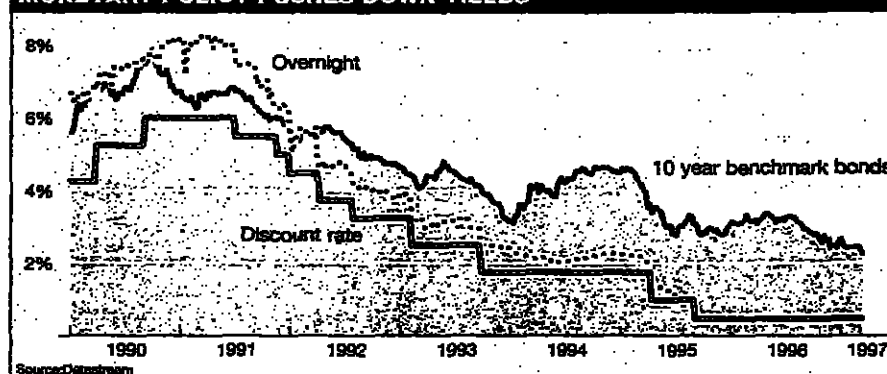
Life assurance companies have also begun to make their first tentative steps into the market. According to officials at the finance ministry, repo outstandings had risen - by the end of October 1996 - to ¥8,900bn (against cash collateral), compared to JGB outstandings of ¥150,000bn. Changes are also under

distorts the yield curve. Low yields in the government market, however, have encouraged growing investor interest in the non-government sector, with both retail and institutional participation growing in yen-denominated bonds issued by foreign borrowers.

The liberalisation of rules restricting the issuance of yen-denominated bonds to investment-grade borrowers at the beginning of 1996 has helped stimulate growth in the samurai market.

Capital Data Bondware, the London-based information service, says issuance more than doubled in 1996 to ¥3,798bn from ¥1,656bn in

MONETARY POLICY PUSHES DOWN YIELDS



in December - bond issuance is likely to fall further, reducing supply in the market. According to London analysts, as of mid-February net issuance of government bonds was expected to fall sharply in the year to March 1998, after dropping from ¥7,400bn in the year to April 1996 to ¥5,600bn in the year to April 1997.

The structural changes, which mirror developments in most other OECD bond markets, are designed to increase liquidity and make it easier for investors and traders, particularly international players, to buy and sell government paper.

A sale and repurchase market was introduced in April 1996. Although technically still a bond lending market rather than a strict "repo" market along US or European lines (transaction taxes would apply to a strict repo mechanism), the new

way to improve the efficiency of settlement. A rolling settlement system was put into place last September, and the government plans to move shortly to a system by which trades would be settled within three days. At the same time, a more comprehensive payment versus delivery settlement system - which will cover corporate and municipal bonds as well as government paper - is planned for December 1997.

There are other moves to increase liquidity in the market. For example, the ministry of finance is negotiating with banks about proposals to issue five-year government bonds. At present, although the government issues two, four, six and seven-year paper, issuance is heavily concentrated at the longer end of the curve. Firms complain that the absence of a five-year bond

1996. Growth here and in the private placement market helped offset a decline in public euroyen issuance.

With the yen-weakening against the dollar during much of last year, structured notes offering a return in a higher yielding foreign currency were also attractive. Although dual-currency bonds have matured in a variety of currencies, some 80 per cent of the total last year were in Australian dollars. Other deals offering investors a coupon in the higher yield currency and redemption in yen have also been popular.

As well as retail buyers, smaller financial institutions such as regional and agricultural banks and mutual aid associations - whose freedom to invest more widely has been increased by pension fund reform - have also been active buyers both of samurai and euroyen.

DERIVATIVES • by Richard Lapper

Restrictions set to ease

Industry will be given the opportunity to catch up with overseas markets

Financial deregulation should give a fillip to Japan's derivatives industry, whose development has lagged behind that of the US and Europe. Many of the legal restrictions which have hampered the industry's growth could disappear over the next few years.

Detailed proposals for the derivatives industry have still to be outlined. However, change is expected in at least two areas.

Firstly, it should become easier to sell equity contracts in the over-the-counter market (between banks and their commercial customers), which at present contravene Japanese gambling laws unless they are conducted through a recognised exchange.

The Securities and Exchange Council, an advisory body which is part of the ministry of finance, is currently discussing the issue, and liberalisation is expected to take place, probably in the 1997 business year.

Secondly, amendments to foreign exchange rules planned for later this year will have a direct impact on the derivatives markets. The withdrawal of rules currently limiting all but a group of restricted "authorised banks" to conduct foreign exchange transactions

will make it easier for players in the financial markets to hedge currency risks. The list of authorised banks includes city banks and long-term credit banks and some regional banks, but excludes Japan's giant securities houses and some other banks, many of which are active in the derivatives markets overseas.

From April - when the new rules are scheduled to take effect - the whole of the financial sector will be able to enter into foreign exchange swap and options contracts with overseas counterparties, which should make it both easier and cheaper for them to construct derivatives products which either hedge against, or speculate on, currency risk.

Financial deregulation could also help Japan's derivatives exchanges. Officials at the Osaka Stock Exchange (OSE), which lists Nikkei stock index futures and options contracts, said in November that they were hopeful of obtaining permission to list new single stock options contracts during 1997, as well as futures and options contracts based on specific sectors of the stock market. And the spirit of the reform is likely to strengthen the resolve of both the OSE and the Tokyo-based exchanges in their moves to increase efficiency and become more user-friendly, especially towards international investors.

The OSE has already begun to reduce the amount of margin which clearing

brokers must deposit with them on behalf of investors. The size of initial margins (deposited at the inception of a trade) at the OSE compared to those at the Singapore International Monetary Exchange (Simex) were one of the main reasons why dealing in the Nikkei 225 contract moved offshore in the early 1990s, for example. Margins have subsequently fallen sharply from their highs of 50 per cent, but business earlier lost to Singapore has not returned.

According to OSE figures, Osaka's market share of the Nikkei 225 contract has fallen from 84.4 per cent in 1991 to 65.1 per cent in 1996.

The Tokyo International Financial Futures Exchange (Tiffe), meanwhile, has also taken steps to reduce margins which clearing brokers must post, last year reducing levels by 50 per cent for clearing brokers and by 70 per cent for non-clearers. There are also some signs that the exchanges are beginning to respond to criticism in the markets about the alleged inadequacy of their systems. Tiffe is reported to be planning to change its computer systems early in 1998. Traders have claimed that the system used to match orders at the Tokyo exchange is slower than on other markets and that they are sometimes unable to fulfil orders quickly and effectively.

Business in the exchange-traded equity market has been sluggish, reflecting these problems but also the fact that investors have had

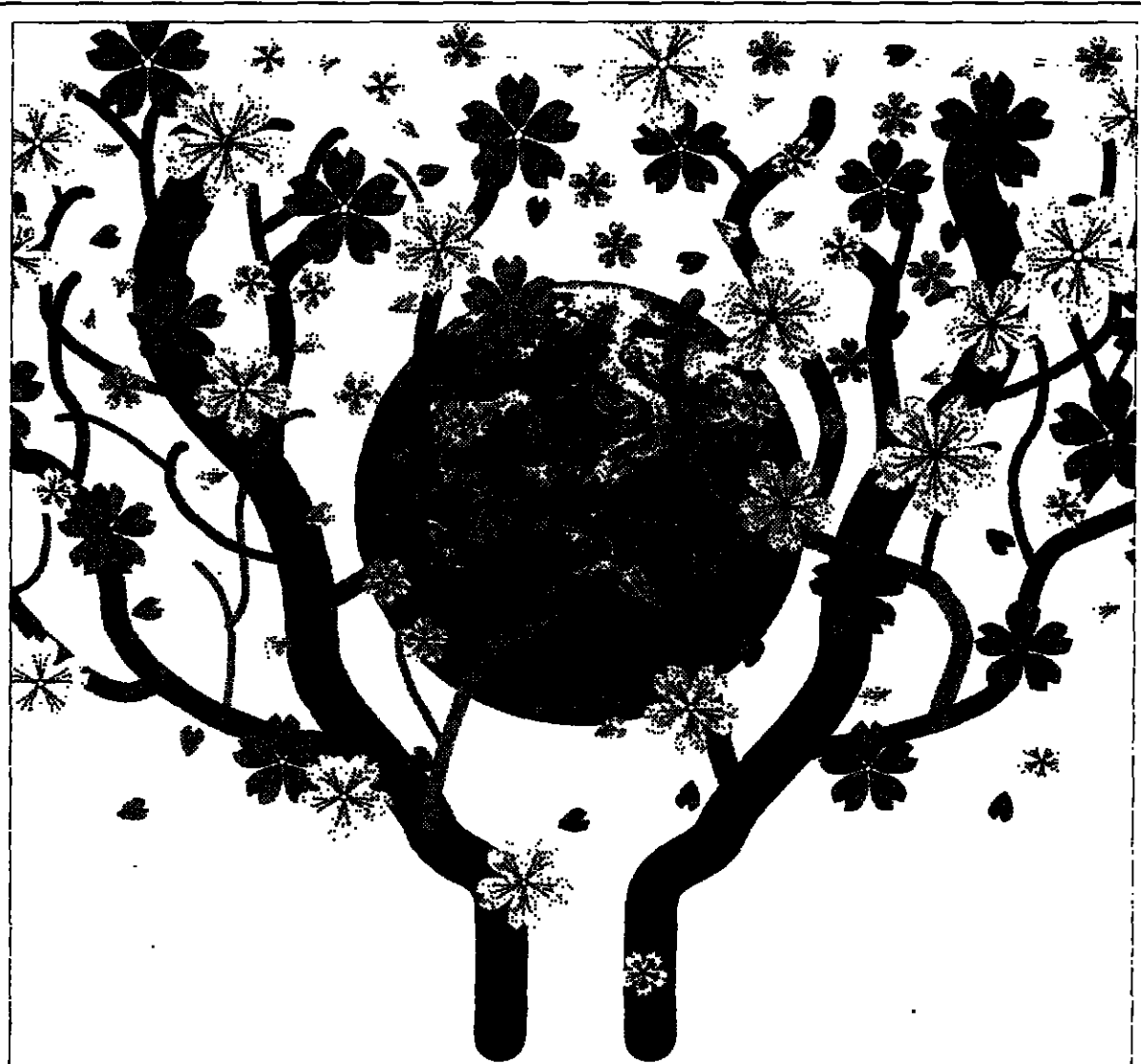
only a limited need to hedge positions in view of the sluggish performance of the equity market, still languishing at no more than half its 1989 peak. Volumes of Nikkei 225 contracts traded at the OSE fell last year, and volumes are still less than a quarter of those achieved in 1991.

Volumes of exchange-traded fixed income contracts traded at Tiffe have also been disappointing. Euroyen volumes fell by nearly one-third in the first nine months of 1996, compared with the same period of the previous year. Volumes of 10-year bond futures contracts have also dropped off.

However, in the over-the-counter market there have been indications that investors are becoming less risk-averse and increasingly prepared to buy products which include some derivatives features in order to increase returns.

In the past 18 months, Japanese investors have been very active buyers of structured notes, which offer higher yields than those available from traditional bank deposits, debentures or government bonds.

The most popular structures include dual currency notes - which pay a relatively high interest rate in yen and are redeemable in a foreign currency, usually the US, Australian or New Zealand dollar - and reverse dual currency bonds - which pay interest in a foreign currency and are redeemable in yen.



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6 JAPANESE FINANCE

PROFILE Yasuo Matsuhashita, central bank governor

Confidence, authority increase with time

In his first news conference after being appointed governor of the Bank of Japan in December 1994, Mr Yasuo Matsuhashita said the BoJ's monetary policy would change some time soon.

"It is not a phase that can expect a drastic change," he said.

The official discount rate was then at an historic low of 1.75 per cent. Four months later, Mr Matsuhashita cut the rate to 1 per cent, and in September lowered it again to its present level of 0.5 per cent.

In the first six months of his five-year term, Mr Matsuhashita, now 71, faced criticism for moving too slowly and being too passive on monetary policy.

During that time he confronted a 20 per cent surge in the yen's value against the dollar and a steady decline in consumer spending and business confidence. He faced growing

public alarm about the massive bad debt of the country's banks, and demands by politicians to further lower the discount rate to help economic recovery.

Now in the fourth year, Mr Matsuhashita is still assuring investors that rates are likely to remain unchanged for the foreseeable future. But he does so with more confidence and authority, observers say.

He is presiding at a time when the government has decided to boost the central bank's powers for the first time in the bank's 55-year history. Under a draft plan which is expected to be approved by parliament in the current session to June, the finance ministry will lose much of the influence it currently has over central bank policy and appointments.

Mr Matsuhashita was the vice-minister of finance, the country's top bureaucrat,

when he became the 27th governor.

His appointment provoked renewed criticism among some financial circles over the informal but established practice of drawing central bank governors alternately from the finance ministry and from the BoJ. Critics in recent years have increasingly voiced concern that the finance ministry exerted too much influence through its hold on the central bank governorship.

Mindful of such criticisms, Mr Matsuhashita's first year in the position was characterised by his need to respond to finance ministry pressure and to maintain the central bank's independence.

Under the revised charter, however, prospective central bank governors will have to be approved by parliament as well as the cabinet. Currently, only cabinet



Yasuo Matsuhashita: approves the planned reforms

approval is required for choices that are widely seen as originating in the finance ministry.

Mr Matsuhashita has voiced his approval of the planned reforms. "If this revision is

made, it will give the central bank more responsibility and also the power to reform itself for the coming century," he says.

Gwen Robinson

PROFILE Hiroshi Mitsuoka, finance minister

Careful path to tread

As a seasoned politician and leader of his own faction within the ruling Liberal Democratic party, Mr Hiroshi Mitsuoka, 66, is among the most influential members of the Hashimoto administration.

He held prominent posts in previous administrations, including minister of foreign affairs, transport, and international trade and industry.

Following national elections last October, the prime minister, Mr Ryutaro Hashimoto, gave Mr Mitsuoka the portfolio of finance minister on the strength of his extensive experience in administrative affairs as well as on the basis of his political clout.

The two orchestrated an ambitious package of financial reforms, announced last December as Japan's "big bang" plan



Hiroshi Mitsuoka: his political clout is valued

which features sweeping deregulation of the securities and finance industry.

In the new climate of reform, Mr Mitsuoka has departed from the old "nursemaid approach" taken by previous finance ministers towards troubled financial institutions and slumping stock markets.

Under his direction, the government has refrained from so-called "price-keeping

operations," traditionally used to inject public funds into the stock market, and has allowed an unprecedented number of small and medium-sized financial institutions and banks to fail.

In February, however, Mr Mitsuoka was forced to calm fears that his hardline policy on troubled financial institutions would extend to Japan's top bank. In response to rumours of a crisis at Nippon Credit Bank, Mr Mitsuoka reassured investors that none of the top 30 banks would be allowed to fail.

He is now treading a careful path between preserving good working relations with influential bureaucrats in his own ministry and, on the other hand, whittling down their powers under promised reforms.

Politically, also, Mr Mitsuoka has charted his way through various corruption allegations. The most recent controversy arose last November from reports that Mr Mitsuoka's former faction received political donations from an oil dealer arrested on suspicion of tax evasion. Mr Mitsuoka's group insisted the donations were legal, but reports of the oil dealer's dealings with bureaucrats and politicians are fuelling a widening scandal.

Gwen Robinson

Reform plans taking shape

Continued from Page 1

to achieve. That assumption is widely held to be a factor in the sudden collapse of share prices, led by banks and stockbrokers' shares, at the start of the year.

The market has since recovered slightly, but even so the top 20 banks' share prices remain at their lowest for nearly five years. Falling share prices have worsened the banks' plight by eroding the value of the equities they include in capital.

They cannot easily raise



Plans for deregulation have been talked about in the Diet (parliament) for years; now action seems likely

new capital, needed to preserve the capital adequacy ratios required by international regulations, without hitting the value of their shares further. Logically, the best option would be to break with the habit of decades and reduce their

assets, as two of them have begun to do.

That vital restructuring is in its early stages, but the signs are that the political, economic and financial pressure for reform of the Japanese financial system has become impossible to resist.

PROFILE Tadashi Ogawa, vice-minister of finance

Calm, steady operator

Mr Tadashi Ogawa, 57, was appointed vice-minister of finance, Japan's top bureaucratic post, in one of the ministry's darkest periods.

He was named to the position in late 1995 when his predecessor, Mr Kyosuke Shinozawa, abruptly resigned to take

responsibility for the ministry's widely-criticised handling of the country's financial crisis and the government's decision to allocate at least ¥685bn of public money towards liquidating bankrupt housing loan companies.

In his previous post as

national tax administration agency, Mr Ogawa oversaw the planning of a new tax system. One of his key proposals, a controversial plan to raise sales tax from the current 3 per cent to 5 per cent, is to be implemented next month.

Mr Ogawa's reputation as a calm, steady operator and an ideas man was enhanced during his earlier stint as secretary to the disgraced former prime minister, Mr Noboru Takeshita. The two formed a close working relationship during Mr Takeshita's time as finance minister in the late 1970s.

Mr Takeshita's term as

prime minister ended with his resignation over corruption allegations in 1989. Commentators say that during that period Mr Ogawa demonstrated great skill in navigating between political and bureaucratic forces - a quality that has served him well in pushing through unpopular reforms and trying to curb government expenditure.

He has displayed the same political sense since attaining the ministry's top post and shown caution about commenting publicly on sensitive issues such as the banks' bad-debt problems.

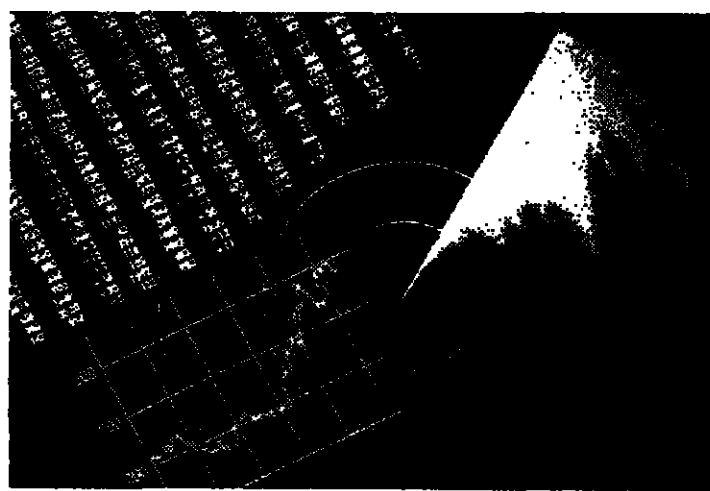
However, in the recent political debate over

financial and administrative reform, Mr Ogawa has been unequivocal. He has staunchly defended the finance ministry's powerful role in government and repeatedly expressed opposition to politicians' proposals to break up the ministry's functions and spin them off to independent agencies.

"I think the present system, in which the ministry manages both fiscal and monetary policies, is an appropriate way to guide the Japanese economy," he says.

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Global Focus

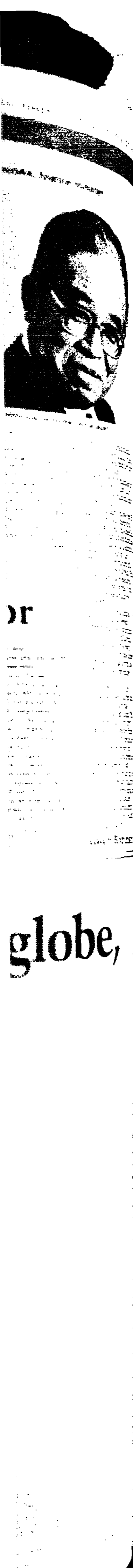
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FINANCIAL TIMES COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1997

Tuesday March 25 1997

Week 13

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IN BRIEF

Inchcape gets Toyota boost

Pre-tax profits at Inchcape, the international distribution group, surged 12 per cent to \$185m (\$222m) last year, powered by a recovery in its core vehicle importing and distribution business. The company said better cars from Toyota helped improve sales. Page 20

Consent plans sell-offs
Consent, the US satellite services company, is to sell its entertainment and earth-station hardware divisions in an attempt to return to earnings growth. The company will also press for privatisation of the satellite consortium, Intelsat. Page 18

Restructuring helps Israel Chemicals
Israel Chemicals, the export-driven state-owned chemicals group, returned to profit last year following a restructuring programme by Mr Shmuel Eisenberg, chairman, who paid the government \$30m for a 24.9 per cent stake in 1995. Page 17

Reed buys MDL Information Systems
Reed Elsevier, the Anglo-Dutch information and media group, agreed to spend \$320m of its US cash reserves on MDL Information Systems, which specialises in the management of research and development information. Page 16

Cosco to raise HK\$1.2bn for purchases
Cosco Pacific, the world's fifth-largest container leasing company, is to raise HK\$1.2bn (US\$155m) through a share placement to help fund its purchase of ports in China and throughout the Asia-Pacific region. Page 19

Leo Burnett chiefs quit in costs row
Two top executives at Leo Burnett, the Chicago-based advertising agency, have left the company following an employee revolt against a cost-cutting drive. Leo Burnett ranks among the world's biggest advertising agencies. Page 18

Roche disappoints despite advance
Roche, the Swiss drugs company, has continued more than a decade of uninterrupted profit growth by increasing its net income by 16 per cent to SF3.9bn (\$2.69bn) in 1996 and raising its dividend by 17 per cent to SF75 per share. The results were regarded as mildly disappointing. Page 16

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Chief price changes yesterday

FRANKFURT (DM)		PARIS (FFP)	
Alcatel	649 + 29	For Lyonnais	740 + 22
Alcatel	120.2 + 6.2	For Lyonnais	740 + 22
Alcatel	278.5 + 15.5	For Lyonnais	740 + 22
Alcatel	173.9 + 7.5	For Lyonnais	740 + 22
Alcatel	417.5 + 26.5	For Lyonnais	740 + 22
Alcatel	31.95 + 4.55	For Lyonnais	740 + 22
NEW YORK (\$)		TOKYO (Yen)	
Alcatel	100 + 2	Alcatel	3980 + 200
Alcatel	114 + 11	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200
Alcatel	14 + 3	Alcatel	3980 + 200

Company complains of 'misinformation' about gold mine estimates

Bre-X hits out at Busang critics

By Clay Harris in London, Mantel Saragosa in Jakarta and Scott Morrison in Vancouver

Bre-X Minerals said yesterday it had "absolute confidence in the integrity and accuracy" of the assay results from what it claims to be the world's largest gold deposit in Indonesia.

The Canadian exploration company reacted strongly to doubts raised last week by a Jakarta newspaper about the size of the deposit at Busang, in the province of East Kalimantan on the island of Borneo.

Bre-X shares, which plunged on Friday to a 52-week low, recovered slightly in Toronto. Indonesian police said, meanwhile, they had found the body of Mr Michael de Guzman, Bre-X's chief geologist, on a marshy land under the flight path of a helicopter from which he was reported to have jumped last Wednesday.

Mr L.B. Sudjana, the country's mines and energy minister,

"When the first ounce of gold is poured at Busang, I'm sure the naysayers will complain about the colour"

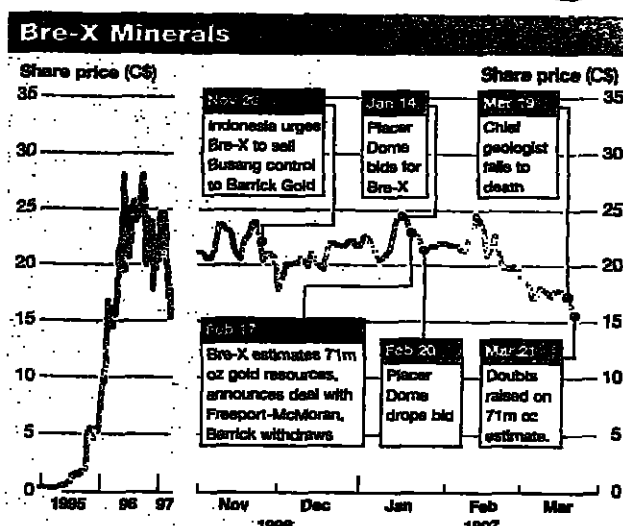
Bre-X president David Walsh

ter, said Indonesia would take "firm action" if reports suggesting Busang was smaller than Bre-X's estimates turned out to be true.

Mr David Walsh, Bre-X president, complained of the "continuing proliferation of falsehoods and misinformation by unnamed sources" and threatened legal action against "certain parties and publications".

He said: "When the first ounce of gold is poured at Busang, I'm sure the naysayers will complain about the colour."

Freeport-McMoran Copper &



Gold, the US company which plans to develop Busang, is conducting tests at the site. Freeport and Bre-X have both said they would not comment until the tests were complete. Under an agreement reached last month, Bre-X would own 45 per cent of Busang, Freeport 15 per cent, the Indonesian government 10 per cent and two Indonesian companies a total of 30 per cent. Mr Walsh said Mr John Felderhof, Bre-X senior vice-president for exploration who shares credit for the discovery with Mr de Guzman, had returned to Indonesia to secure the expeditious development of Busang.

Mr Felderhof has openly speculated that the deposit could contain as much as 200m ounces of gold, almost three times the official 71m ounce figure now at issue. He said in Jakarta: "I have got enough to deal with after the death of my friend and that's my first concern."

Mr Anwar Arnowo, president of Indonesian operations for Vancouver-based Borneo Gold Corporation, another Canadian mining company, said of Mr de Guzman: "I knew him very well and I knew he was terribly sick from hepatitis B."

"His death had nothing to do with the company. It was a suicide by a very hard-working man who could not take the pain any longer."

Buoyant markets give boost to Lehman profits

By Richard Waters in New York

Wall Street's long streak of rising quarterly earnings has continued into 1997, according to yesterday's results from Lehman Brothers, the US investment bank.

However, the spectre of a US interest rate increase, possibly as early as today, has left a more sombre outlook for the rest of this year.

Lehman reported a 38 per cent jump in after-tax profits for its first quarter. Coming on the heels of strong earnings last week from Goldman Sachs, the news offered further proof of how the buoyant bond and stock markets in the US have fuelled Wall Street's rise.

But widening expectations of an early interest rate rise have prompted stock market concern about the prospects for investment banks, in particular those which, like Lehman, are heavily dependent on earnings from the bond markets.

With the Federal Reserve's open markets committee due to meet today, many Wall Street economists expect to see US rates raised for the first time in more than three years.

Lehman's shares had rallied 3% to 31 1/4 by lunchtime in New York, still 15 per cent below last month's peak.

Net income was \$144m for the three months to the end of February as net revenues rose 13 per cent to \$925m. Earnings per share were \$1.16, well ahead of the 79 cents of a year ago and above analysts' expectations of about 91 cents.

Lehman's earnings continue to compare unfavourably with most of its biggest rivals. It reported a return on equity - a key measure of performance - of 16.1 per cent, compared with 13.9 per cent for all of 1996. Most other Wall Street houses have achieved returns of over 20 per cent.

The bank's revenues included a 14 per cent increase in the contribution from investment banking to \$240m. Mr Richard Fuld, chief executive, said the figures reflected "the balanced strength... in the firm's fixed income, equity and investment banking activities over the past six months".

Kirch seeking \$500m of German bank loans

Munich-based media group denies cash crisis

By Frederick Stüdemann in Berlin

KirchGroup, the German media company, yesterday confirmed that it was negotiating with banks over a large-scale loan, believed to be in the region of DM1bn (\$500m).

However, it denied reports that the financing was intended to stem a cash crisis caused by increasing losses from its digital pay-TV venture DF-1 and other subsidiaries such as the free TV networks SAT-1 and Deutsches Sport Fernsehen.

Kirch, based in Munich, said it had been in talks for some time with the Bayerische Landesanstalt für Aufbaufinanzierung (LFA), a bank owned by the state of Bavaria, which provides financing to small and medium-sized businesses.

Kirch is talking to other commercial banks, believed to include Bayerische Vereinsbank.

Mr Otto Wiesen, the Bavarian economics minister and head of the LFA supervisory

board, said yesterday that a decision on whether to grant the loan, which would be at market rates and conditions, had not been reached.

The LFA is believed to be considering supplying roughly half of the loan, with the rest being made up by commercial banks.

The financial health of Kirch has become the subject of increasing speculation.

DF-1 has fallen far short of its original subscriber forecasts, leaving Kirch with considerable financial commitments from the start-up and running costs, and guarantees made to Hollywood film studios with which the German company signed billion-dollar deals last year.

Analysts estimate the start-up costs of DF-1 at \$1.5bn.

In early March Kirch experienced a further setback when British Sky Broadcasting said it would not be taking up an option to acquire a 49 per cent stake in DF-1.

At the same time Kirch has yet to reach a necessary com-

promise with Premiere, an analogue pay-TV channel in which both it and rival company CLT-Ufa have stakes.

There has also been no progress on a distribution deal with Deutsche Telekom, the partially-privatised telecoms company owning most of Germany's cable network, which Kirch needs to put DF-1 into the majority of households.

The negotiations between Kirch and the LFA were criticised yesterday by Bavaria's Green party, which said that LFA funds were not intended for "adventurers and speculators". It called on the government to block the loan.

Kirch would not give details of the negotiations or the sums involved. The purpose of the loan was to provide "financing for KirchGroup's business activities", it said. "It is perfectly normal for companies to finance their investments through a mixture of loans and their own money."

Observer, Page 13
Lex, Page 14

Indian privatisation helped as VSNL raises \$448m

By Tony Tassell in London

Videsh Sanchar Nigam, India's sole provider of international telecommunications, has raised an initial \$448m in the country's largest international equity issue.

VSNL said "exceptional demand" saw the global depositary receipt issue (GDR), the third largest international equity offering by an Asian issuer outside Japan, heavily oversubscribed.

The strong demand should boost the domestic share market and the government's programme of partial privatisation of state-controlled companies such as VSNL.

The government is planning a succession of similar issues over the next 12 months to raise Rs45bn (\$1.25bn) in its attempt to reduce the coun-

try's fiscal deficit from 5 per cent to 4.5 per cent of gross domestic product.

Brokers said that even if only a part of the unfulfilled VSNL demand spilled over into the domestic market, Indian equities were likely to rise strongly over the next few months. Gross commitments to the issue totalled \$5bn.

VSNL will also have the right to exercise a greenshoe option to raise a further \$80m, bringing the total issue size to \$5.28bn, far in excess of the previous largest GDR offering from the subcontinent - State Bank of India's \$370m fund-raising last year.

Demand for the issue was highlighted by a sharp rise in the GDR after the start of trading in London yesterday. The offering was priced at \$13.83 per GDR, equivalent to Rs1,000

per underlying domestic ordinary share, and was four times subscribed. Each GDR represents half an underlying domestic share.

Bankers said the pricing represented a 1.5 per cent premium to VSNL's close in Bombay on Friday of Rs986.35 and a 6 per cent premium to the average stock price over the last three months of Rs943.17.

The GDRs traded in London yesterday at \$16.50, an 18 per cent premium to the offering price.

Bankers said a higher price could have been sought for the GDR, but the government "wanted to send a signal that they are listening to the market".

The issue's joint global co-ordinators were Dresdner Kleinwort Benson, Jardine Fleming and Salomon Brothers.

Suez-Lyonnaise deal closer

By Andrew Jack in Paris

Shares in Suez and Lyonnais des Eaux fluctuated yesterday on signs that the two French groups were close to deciding on a merger.

Executives are believed to be finalising proposals which could be presented to the boards of Suez and Lyonnais in early April, before publication of the groups' results.

If the deal goes ahead, it would create a single quoted company primarily providing water and other utilities services to governments around the world.

The positive reaction of the financial markets is in contrast to the drop in Lyonnais's share price when a

merger with Suez was discussed two years ago. Lyonnais shares yesterday closed up FF13 at FF374, while Suez ended the day down FF3.1 at FF277.3, after sharp rises in the morning.

Mr Gerard Mestrallet, who took over as chairman of Suez in a 1995 boardroom coup, has reshaped the holding company, concentrating on utilities, to become the largest shareholder in Tractebel of Belgium.

He has refocused Suez's strategy, sold businesses including Garmore, Banque Indosuez and the portfolio of property loans, transforming its heavy debts into a cash pile for investments.

He has been supported by

Mr Jérôme Monod, 67, the chairman of Lyonnais, in which Suez holds more than 18 per cent of the shares.

Following a merger, Mr Mestrallet would be in a good position to take over from Mr Monod, who intends to remain in place at least until next year.

Lyonnaise's debts have fallen sharply to about FF20bn (\$3.5bn) in the past few months, and it is poised to reveal profits above expectations at more than FF1.3bn next week.

These close to the negotiations said yesterday the deal was far from certain, with disagreements over merger price and concern over the reaction of rival investors.

MOBIL COM

Sponsoring Bank: DG Bank

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Investors: 3i Group plc and its managed funds 3i Europe

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COMPANIES AND FINANCE: EUROPE

Reed Elsevier in \$320m US acquisition

By Raymond Snoddy in London

Reed Elsevier, the Anglo-Dutch information and media group, yesterday agreed to spend \$320m of its US cash reserves on MDL Information Systems, which specialises in the management of research and development information.

MDL went public in 1993 when the administrators to the late Robert Maxwell's business empire found the little "gem" inside the Macmillan publishing group.

The deal is a shift for Reed Elsevier, which already publishes 1,200 scientific journals in paper and electronic form, from strictly content to a more comprehensive service provider.

The group is paying \$32 a share for MDL - close to its \$33 high last October.

The purchase price, in a tender offer organised by Lehman Brothers, represents 30 times earnings and five times revenues. Last year revenue totalled \$61.5m, an

increase of 19 per cent, and operating income was up 74 per cent at \$10.3m.

Unlike text databases, MDL's software gives graphical representation of molecular structures, and allows the user to develop models for possible drug compounds with a search of different molecules.

The aim is to speed up drugs design and research by creating hundreds, or even thousands, of different drug molecules. Almost all the world's leading pharmaceu-

tical companies are among MDL's 800 customers.

Mr Nigel Stapleton, co-chairman of Reed Elsevier, said yesterday he saw the acquisition as a "bridge" that would help to get Reed's scientific content on to the desks of research scientists. There had been intense bidding for the proprietary software, he said. At the moment MDL mainly targets chemists in the pharmaceutical industry, but plans to launch a new product aimed at biologists later this year.

To fund the purchase, Reed is using cash balances currently invested in short-term accounts and earning an interest rate of around 5.4 per cent.

The acquisition of MDL, which is based in San Leandro, California, is subject to antitrust clearances.

In the second half of this year Reed Elsevier plans to launch ScienceDirect, an online database initially containing 350 of its life sciences journals, and later all 1,200 scientific journals.

Roche disappoints despite 16% advance to SFr3.9bn

By William Hall in Zurich

Roche, the Swiss drugs company, continued more than a decade of uninterrupted profits growth when it reported a 16 per cent increase in net income to SFr3.9bn (\$2.69bn) for 1996.

The results, which were announced after the Swiss stock market closed, were regarded as mildly disappointing. The group increased net income by 16 per cent in the first half of 1996, and analysts had forecast a 17.8 per cent rise in the second-half, on the basis of the recent sharp decline in the Swiss franc.

Roche certificates, the most widely traded shares, have risen 18 per cent since the start of the year, helped by rumours that the group

might use part of its SFr15bn cash pile to make an acquisition or buy back shares.

The certificates closed SFr35 lower, at SFr12.250, ahead of yesterday's announcement.

Despite the disappointing results, analysts welcomed the announcement that Mr Jonathan Knowles, 49, the British-born head of research at Glaxo Wellcome Europe, will take over as Roche pharmaceutical research chief. He will replace Professor Jürgen Drews, 68, who has overseen the recovery in Roche's research effort for the last decade.

Most analysts believe the company is poised to enjoy the benefits of one of the strongest new-product pipelines in the industry. Mr Knowles's appointment

will be seen as a further sign of the growing influence of Mr Franz Humer, Roche

chief operating officer and pharmaceutical chief, who joined Roche just over two years ago from Glaxo, the UK drugs company.

In addition to heading research for Glaxo Wellcome Europe, Mr Knowles has been director of the Glaxo Institute for Molecular Biology in Geneva since 1989 and has been heavily involved in developing Glaxo's strategy in the field of genetics. He will join the Roche executive committee in January 1998.

Roche has traditionally released news of its performance over a period of several months. It announced its sales figures in January and will release further details at its annual press

conference in mid-April.

Yesterday's profits announcement noted that "capacity utilisation at existing production facilities continued to rise and, coupled with steady gains in efficiency, contributed to yet another improvement in the group's operating results".

Analysts are concerned that the company has become increasingly dependent on earnings from its financial activities, which were equal to 40 per cent of operating profits in the first half.

Roche will disclose more details next month but said yesterday that its net income was boosted by a "very strong non-operating result".

The dividend is lifted 17 per cent to SFr75 per share.



Franz Humer: seen as having growing influence at Roche

TV start-up costs widen CME losses to \$30m

By Kevin Done, East Europe Correspondent

Central European Media Enterprises, the US pioneer of private commercial television in central and eastern Europe, increased its turnover by 37 per cent last year to \$135.99m, helped by the expansion of its broadcasting operations in Romania, Slovenia and Slovakia.

The group's net loss widened to \$30m from \$18.7m in 1995 under the burden of

start-up costs in Slovakia, development expenditure for new operations in Poland, Ukraine and Hungary, and continuing heavy losses on its regional television operations in Germany.

Operating profits at Nova TV, CME's Czech television station and the group's highly lucrative first operation in eastern Europe launched in early 1994, increased to \$45.4m from \$42.9m in 1995.

Despite the resistance of

the Czech broadcasting authorities CME is raising its stake in Nova TV by 5.3 percentage points to a 91.3 per cent voting interest and a 93.2 per cent economic interest with the acquisition of part of the holding of Mr Vladimir Zeleny, general director of the Czech station.

Mr Leonard Fertig, CME chief executive, said that PRO TV, the group's majority-owned Romanian operation, had achieved an operating profit of \$507,000 in the

fourth quarter of 1996, only one year after launch in December 1995.

And POP TV, the group's television station in Slovenia, came close to breaking even in the final quarter, also after only 12 months of operations.

As a result of the rapid improvement in the performance of the new operations the group's net loss was cut to \$2.9m in the final quarter of 1996 from \$6.8m in the same period a year earlier.

Mr Fertig said that the group had expanded from a development company into the leading broadcaster in central and eastern Europe within two-and-a-half years of its initial launch in the Czech Republic.

Its coverage had increased to 93.8m people in the region by the end of last year from 27m in 1995.

Through other activities under development and the expansion of existing operations the group had the

potential to increase its total broadcast coverage to more than 140m viewers, he said.

CME now operates the top-ranked stations in four countries, the Czech Republic, Romania, Slovenia and Slovakia.

It is planning to launch its national network in Poland in October and next month will take part in the tender offer for one of two national broadcasting licences in Hungary.

EUROPEAN NEWS DIGEST

Hochtief in deal on Holzmann stake

Hochtief, the German construction group, yesterday looked set to increase its management influence over its Frankfurt-based rival, Philipp Holzmann, after it announced it was pooling its interests with Holzmann's other majority shareholder, Deutsche Bank. Hochtief, which holds a 24.9 per cent stake in Holzmann, said it would give details of its deal with Deutsche Bank at a news conference today. It added that the agreement would give the two partners "just under 50 per cent" of Holzmann, a move which would require approval from European competition authorities.

Hochtief, which has been locked in a takeover battle with Holzmann for the past two years, has so far been thwarted by the German cartel office, which argues a merger would create a dominant force on the German market. Hochtief claims a merger would better position the two groups against fierce international competition. Hochtief separately said that because of the pooling arrangement, it was cancelling an option to buy a 10 per cent stake in Holzmann, currently "parked" with Commerzbank.

Sarah Althaus, Frankfurt

Swiss telecoms group optimistic

Switzerland's state-owned telecommunications company expects to increase its pre-tax profits by 7 per cent to SFr1.5bn (\$1.03bn) in 1997 despite a marginal fall in sales to SFr1.2bn. The group, which is changing its name to Swisscom ahead of next year's stock market flotation, says that reductions in charges of SFr660m over the past two years are the main reason for its sluggish sales growth. In the current year revenues will be reduced by another SFr200m as a result of price cuts.

The group is facing increasing international competition in its core market for telephony, which accounts for half of sales, and turnover fell 3 per cent last year. However, its mobile phone business increased turnover by 47 per cent in 1996. After restructuring charges of SFr681m, Swisscom reported a net profit of SFr746m in 1996, which was 50 per cent below the previous year, when there were SFr109m of restructuring charges. Some 85 per cent of the group's SFr14.6bn assets is financed by debt which will need to be restructured before flotation.

William Hall, Zurich

Vontobel venture capital move

Vontobel, a Swiss private bank, is raising SFr400m (\$275m) to invest in venture capital, primarily in Europe's Alpine region. The new company, Private Equity Holding, is designed to appeal to Switzerland's traditionally conservative investment community by spreading its investments across 10 specialised venture capital concerns. It is the biggest venture capital fund to be established in Switzerland, although the bulk of its investments will be made in businesses based outside Switzerland. The company intends to seek a stock market listing after two years.

William Hall

RNGS to seek NY listing

Rosneftegazstroy, Russia's largest oil and gas pipeline construction company, is seeking a New York listing later this year. The company, also known as RNGS, floated about 3 per cent of its shares on the Berlin stock exchange last month. Mr Ivan Mazur, chairman, said the company was now working to improve its financial reporting systems in preparation for a level one American Depository Receipt listing.

Robert Corzine, London

German steelworkers turn heat on banks

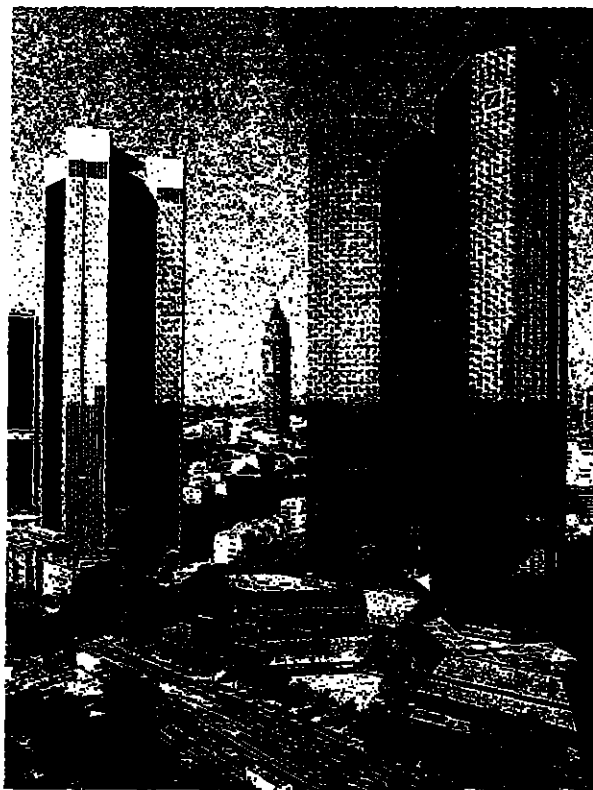
Events in Germany have given a new meaning to the term "hostile takeover". Since it emerged last week that Krupp Hoesch was planning a bid for Thyssen against the wishes of the latter's management - although the two sides yesterday announced a friendly deal - it is the banks which have been pilloried rather than the bidder. Emotions have reached such a pitch that steelworkers, possibly up to 30,000, are still planning to march into Frankfurt's central banking district today to demonstrate against the two biggest German banks, Deutsche Bank and Dresdner Bank. They will come in buses, trucks, cars and motor cycles from the Ruhr district where the two steel and engineering companies are based.

Their main concern - whatever the shape and scope of the final deal - will be to keep their jobs at a time of high unemployment. Krupp's manoeuvre has raised fears of more job losses in German heavy industry. It has also underlined the suspicion with which large sections of Germany's consensus-minded society, including politicians on both sides of the political divide, regard the scale of economic restructuring - with a shift from manufacturing to service- and information-based industries - now generally accepted in many other countries.

Miners have already demonstrated successfully in Bonn, persuading Chancellor Helmut Kohl to slow the run-down in coal mining by continuing heavy subsidies. Now the workers in the steel industry, no longer subsidised and facing strong competitive pressures for change, are taking their turn in the financial capital.

Ever since Thyssen accused Krupp of "wild west" tactics, feelings have run high. Some of the language used by employees, trade unionists, a few politicians and even right-wing press commentators has been reminiscent of attacks on 19th century laissez-faire capitalism.

There could be more such talk today, though the tone may well be less aggressive since Krupp dropped its bid



Glass meets steel: Deutsche Bank's Frankfurt headquarters, expected to be the scene of worker protests today

late yesterday afternoon. The demonstrators will be addressed from a podium in front of Deutsche's twin-towered headquarters by Mr Klaus Zwickel, head of the IG Metall engineering union, and Mr Georg Bongen, head of the Thyssen works council.

The banks, which have been advising Krupp, along with Goldman Sachs, the US investment house, hope the demonstration will be peaceful. But they have been rattled. Deutsche Bank's board met specially yesterday morning to discuss the situation.

It took the unusual step of issuing a statement to defend its role as an adviser to Krupp, asking simply: "What has Deutsche Bank done?" It said its investment banking unit, Deutsche Morgan Grenfell, had advised Krupp at the company's request, on the bid and its possible financing.

In the face of strong criticism of the bank's role in financing what could have been a hostile takeover, it felt obliged to state that such mandates were common in and outside Ger-

Krupp deal 'may not cut capacity'

By Stefan Wagstyl, Industrial Editor

The planned merger of Krupp-Hoesch and Thyssen's steel businesses may not produce any significant capacity cuts in European steelmaking, according to a leading consultants' report. Beddows, a London-based consultancy specialising in steel, says in a report the merger will leave rival steel companies facing a much stronger German competitor. But other steelmakers will only benefit if they carry out further restructuring of their own.

Beddows says a merger would bring Krupp-Hoesch and Thyssen savings, but mostly in overheads and support functions and in better usage of plant - not in reductions in steel output. "As far as capacity rationalisation is concerned, there seems little reason for the rest of the steel industry to be optimistic."

It says the two companies would want to keep most of their combined capacity to retain market share, and avoid social and political fallout that would ensue from cutting jobs in Germany. Together Krupp-Hoesch and Thyssen would lead in steel strip production, used in the motor and appliance industries, with an 18 per cent share of the EU market, compared with 15 per cent for France's Usinor Sacilor and British Steel's 9 per cent.

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March 1997

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JPY 101.50

Fashion house founders cash in on kudos

Designer labels come off the catwalks and on to market, but 'glamour stocks' have proved fickle

Among the m  les of models and photographers who raced backstage after Gucci's fashion show in Milan this month were a couple of investment analysts looking somewhat incongruous in Savile Row suits.

They were there to assess whether the clothes which will be sold in Gucci's stores next autumn are enticing enough for the company to sustain its recent growth.

Those analysts could soon have more shows to attend, because other fashion houses - Gianni Versace, Ralph Lauren and Valentino - may also go public.

These designers are considering flotation just as sales of global luxury goods are soaring.

However, the market in such goods is notoriously volatile.

For every success story such as Gucci, which has seen its shares treble since flotation 18 months ago, there is a tale like that of Donna Karan, the US fashion designer whose shares are worth half last July's price.

Neither Versace, Lauren nor Valentino have finalised their flotation plans, but at least one may float before the end of spring.

The latest fashion flotation, that of Adolfo Dominguez, the Spanish designer, set an encouraging precedent last week by being 50 times over subscribed, a



Valentino: 'Sheikh of Chic' is to follow the fashion for flotation and make his designs the basis of an investment



record for the Madrid stock exchange. Dominguez's company is considerably smaller, and his public profile far lower, than those of Versace, Lauren and Valentino.

Gianni Versace is best known for designing unashamedly sexy clothes for Elton John and Sting, and the safety-pinned dress which turned Elizabeth Hurley from a little-known actress into a paparazzi star.

Founded in Milan in 1976, the Versace group is owned

by the designer's family and run by his brother, Santo, as president.

The business expanded in the 1990s by opening new stores and developing cheaper ranges, such as Versace Jeans and Versus sportswear.

The wholesale turnover of Versace-branded products rose from L1,615bn in 1995 to an estimated L1,705bn (\$1bn) in 1996. Net revenue increased from L684bn to L845bn over the same period,

and pre-tax profits from L154bn to L175bn.

Ralph Lauren is a more conservative figure. He began his business in New York in the late 1960s and soon earned a reputation for creating contemporary versions of classic 'preppy' styles.

Lauren's biggest commercial coup is the button-collared shirt in his less expensive Polo menswear line, which is a favourite of

week-ending investment bankers.

The Lauren group is more reticent about its flotation plans than Versace. However, it is understood to have instructed Goldman Sachs, the US investment bank which is also a minority shareholder, to advise on prospects for a share issue.

Valentino has also appointed Goldman Sachs. Mr Giancarlo Giammetti, who co-owns the company with Valentino, confirmed it

was "investigating different options", including flotation or an association with a larger group.

Dubbed the "Sheikh of Chic" by Women's Wear Daily, the US trade magazine, Valentino is renowned for the clothes worn by movie stars such as Elizabeth Taylor and Sharon Stone. His company's turnover rose from L1,290bn in 1995 to L1,380bn last year. L1,485bn is forecast for 1997.

All three designers - the youngest of whom, Versace, is now 50 - are clearly eager to cash in their substantial equity stakes.

Going public would also enable them to raise capital at a time when other luxury brands, notably Gucci and Prada, are expanding aggressively, particularly in Asia and Latin America.

"Glamour stocks" such as fashion houses have proved extremely popular, as illustrated by the success of the Gucci and Dominguez issues. Yet investors are aware of the erratic nature of the luxury goods market, which is sensitive to both the economic cycle and fashion trends.

Hence Donna Karan's shares have fallen because of concern about cost control.

"If companies do well in this sector, the rewards are fantastic," one analyst says. "But if there's a hint of trouble, no one wants to know."

Alice Rawsthorn

EUROPEAN NEWS DIGEST

Doughty to take 60% of Impress

Doughty Hanson, which claims to be Europe's largest private equity fund manager, has emerged as the main shareholder in a joint venture between Pechiney of France and Germany's Schmalbach-Lubeca. The new company, Impress Metal Packaging, brings together some of the companies' metal packaging and can operations.

Pechiney and Schmalbach-Lubeca will retain 20 per cent each in the venture, while Doughty Hanson will take 60 per cent. Doughty Hanson yesterday forecast the new company would have sales of DM3bn (\$1.19bn) in its first year of operation, in line with aggregate 1996 figures from the various businesses. Impress will be based in the Netherlands, but have 35 manufacturing sites across 12 European countries and Japan. It will make cans for food packaging and for products such as paints and chemicals, as well as aerosol cans. The chairman will be Mrs Dominique Damon, who has been a senior executive at Alusuisse-Lonza and Rh  ne-Poulenc.

Doughty's latest deal follows its SFY1.5bn (\$1.24bn) acquisition earlier this month of Swiss sanitary systems maker Geberit. In February it took over German machinery group Winkler and D  nnleier in a leveraged buy-out worth about DM250m.

Mark Mulligan

Prague Breweries in the red

Praze Pivovary (Prague Breweries), the Czech brewing group controlled by Bass of the UK, incurred a net loss of K 119.1m (\$4.1m) for 1996 as heavy investment costs took the fizz off a strong export performance. Group turnover reached K 1.8bn, but a higher wage bill, the cost of expanding its distribution network, and investment of K 500m in operations pushed the company into a loss. Comparisons with 1995 are complicated by the merger of PB, the core of the group, with Vratslavice and Ostrava, two smaller breweries.

Exports in 1996 of Staropramen, the group's premium brand, represented 16 per cent of total output and 24 per cent of revenues. Total output rose 45 per cent to just under 2.3m hectolitres. The group opened a new fermentation facility yesterday at the main brewery in Prague. The K 200m facility is the first significant investment in the plant since acquisition by Bass, which now owns 55 per cent of the group.

Mr Graham Staley, chief executive, said negotiations were continuing with the IPB banking group about a possible increase in Bass's stake in Radegast, the second-largest Czech brewer. Bass wants to take its total share of the Czech beer market to 25 per cent and now owns 34 per cent of Radegast.

Vincent Boland, Prague

KGHM sale advisers named

Merrill Lynch and Robert Fleming were yesterday named co-lead managers for the sale of KGHM Polska Miedz, Poland's integrated copper ore producer and smelter, which is due to be privatised in summer. BZW, Union Bank of Switzerland and the Wlekoopolski Bank Kredytowy, the Polish government's advisers, are co-ordinating the sale globally as well leading the offer.

The announcement comes as the Solidarity trade union at the company, which employs about 30,000 people, is demanding a 20 per cent wage rise and 10-year employment guarantees for the workforce after the privatisation. Management has offered to consider a 17 per cent wage increase. Commerzbank, Creditanstalt, ING Barings, Nomura International and Paribas will be co-managers of the offer.

Christopher Bobinski, Warsaw

Restructuring helps Israel Chemicals recover

By Judy Dempsey in Jerusalem

Israel Chemicals, the export-driven state-owned chemicals group, returned to profit last year following a restructuring programme by Mr Shaul Eisenberg, chairman, who paid the government \$230m for a 24.9 per cent stake in 1995.

The chairman has an option to acquire a further 17 per cent, which would cut the government's stake to just above 31 per cent.

Net profits in 1996 were \$69.5m, against a loss of \$25m the previous year. This was blamed mainly on charges related to the restructuring, which entailed reducing the

workforce, shutting plants and moving its headquarters. After discounting Clearon, the US company, and the German-based B.K. Ladenburg group which ICL acquired in 1995, net revenues rose 2.7 per cent, from \$1.38bn to \$1.63bn.

Mr Yigal Dimant, chief executive officer of ICL, said sales were boosted by a heavy investment programme, which rose from \$538m in 1995 to more than \$638m last year. Total investments will reach \$2bn by the end of the decade.

Exports account for more than 90 per cent of the group's revenues, and although 60 per cent of production is located in Israel, ICL has

embarked on an ambitious programme to acquire production facilities in the US, Germany, France and The Netherlands.

Part of that investment includes expanding the Dead Sea Works, a subsidiary of ICL and one of its most prized assets, which specialises in the production of potash. DSW holds a 7 per cent share of the global potash market currently led by Canadian companies. Potash accounts for 18 per cent of the global fertiliser market.

In a move to boost sales and tap the resources of the Dead Sea, DSW is investing \$470m in building a production unit and power plant

to produce magnesium. Volkswagen, the German automotive group, has already taken a 35 per cent stake in the project and will invest \$75m-\$80m in the plant.

Israel Discount Bank, Israel's third-largest, said yesterday net income dropped 13 per cent in 1996 because of a sharp rise in debt provisions, writes Avi Machlis in Jerusalem. The bank is earmarked for privatisation this year.

Net income fell from \$83m in 1995 to \$72m last year, with provisions for doubtful debts leaping 44 per cent from \$96.5m to \$138m over the same period. Income from financing activities, before the provi-

sions, was up 2 per cent from \$84m in 1995 to \$76m last year.

Expectations of steep provisions delayed a secondary offering of 17 per cent of IDB shares held by the government, planned for last month. Mr Dan Meridor, Israel's finance minister, asked the parliamentary finance committee at the weekend to re-approve the offering for April. The government, which holds 79 per cent of IDB, has pledged to rapidly sell-off its holdings in Israel's biggest banks.

The IDB offering is expected to raise about \$165m. The bank's assets totalled \$24.6bn at the end of 1996.

Atlas Copco AB

(publ)
Nacka, Sweden

NOTICE OF ANNUAL GENERAL MEETING

The Shareholders of Atlas Copco AB are hereby invited to attend the Annual General Meeting to be held on Tuesday, April 22, 1997 at 5.00 p.m. (Swedish time) in the Barndalshallen, Strandv  gen 69, Stockholm.

AGENDA

1. Election of Chairman to preside at the Meeting.
2. Preparation and approval of a voting list.
3. Election of one or two persons to approve the minutes.
4. Examination of whether the Meeting has been properly convened.
5. Presentation of the Annual Report and the Auditors' Report as well as the Consolidated Annual Report and the Consolidated Auditors' Report.
6. The annual presentation by the Managing Director.
7. Consideration of resolutions in respect of the following:
(a) adoption of the Profit and Loss Account and the Balance Sheet as well as the Consolidated Profit and Loss Account and the Consolidated Balance Sheet;
(b) discharge from liability of the Board of Directors and the Managing Director;
(c) allocation of the Company's profit or loss according to the adopted Balance Sheet.
8. Determination of the number of Board Members and Deputy Members to be elected by the Shareholders at the Meeting.
9. Election of the Board Members and Deputy Members as well as of the Auditors and Deputy Auditors.
10. Determination of the remuneration of the Board of Directors and the Auditors.
11. Other matters, that shall be considered at the Meeting according to the present Swedish Companies Act or the Articles of Association.

Right to participate

To be entitled to participate in the Annual General Meeting shareholders must:
- be recorded in the Shareholders' Register kept by the Swedish Securities Register Centre (V  rdep  rcentralen VPC AB) not later than Friday, April 11, 1997, and
- notify the Company of their intent to participate in the Annual General Meeting not later than 4.00 p.m., Thursday, April 17, 1997. Notification of intent to participate in the Meeting may be made in writing to Atlas Copco AB, S-105 23 Stockholm, by telex to 46-5-743 80 37, or by telephone to 46-5-743 80 00.

Shareholders whose shares are held in trust by a bank or private broker must temporarily re-register their shares in their own name to be able to participate in the Annual General Meeting. Such re-registration must be completed not later than Friday, April 11, 1997. Shareholders should notify the trustee of their desire to re-register in adequate time prior to this date. A shareholder can attend and vote at the Annual General Meeting in person or by proxy. In accordance with Swedish practice the Company does not send forms of proxy to its Shareholders. Shareholders wishing to be represented by proxy should submit their own forms of proxy to the Company.

Proposals to the Annual General Meeting

The Board of Directors proposes that a dividend of SEK 3.75 per share be paid to the Shareholders. The Board also proposes that the Record Date for the payment of dividends be April 25, 1997. Should this date be approved by the Annual General Meeting, the dividend is expected to be distributed by the Swedish Securities Register Centre on May 5, 1997.

Shareholders representing more than 35% of the total number of votes in Atlas Copco AB have submitted the following proposal regarding election of the Board of Directors and Auditors.

Re-election of the Ordinary Members:

Anders Sch  r, Tom W  chters  ter, Erik B  lfrage, G  sta Bystedt, Paul-Emmanuel Janssen, Hari Shankar Singhania and Michael Trieschov.

Election of new Ordinary Members: Giulio Mazzalupi (at present Deputy), Sune Carlsson (Executive Vice President and Member of the Group Executive Committee of ABB Asia Brown Boveri Ltd), and Lennart Jeansson (Executive Vice President and Deputy CEO of AB Volvo). G  ran Lindahl and Curt G. Olsson have declined re-election.

Re-election of the Ordinary Auditors:

Stefan Holmstr  m, KPMG B  hlin AB, and Robert Barnden,   rving Coopers & Lybrand AB. Re-election of the Deputy Auditors: Thomas Thiel, KPMG B  hlin AB, and   rvard H  rulin,   rving Coopers & Lybrand AB.

The General Meeting will be concluded by the presentation of "The John Munck Award" for decisive contribution within product development and "The Peter Wallenberg Marketing and Sales Award" for the development of marketing and sales methods.

Stockholm March 1997
The Board of Directors.

Atlas Copco

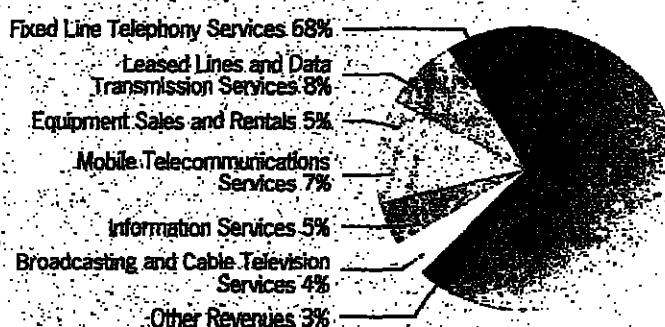
France Telecom 1996 Financial Results

- 2.3 % increase in revenues
- Net income before special items: FF 14.5 Billion

Consolidated Income Statement Highlights (in FF Billion)	1995	1996
Revenues	147.8	151.3
Operating income before special items	29.6	30.3
Net income before special items*	14.0	14.5
Net income as reported	9.2	2.1

*Relating to the change in France Telecom's status.

Distribution of 1996 Consolidated Revenues by Activity



Key Figures 1996

- Telephone lines including ISDN B channels used for voice telephony - 33 million.
- Total ISDN B channels (+ 45 %) - 1.61 million.
- Cellular phone subscribers (l  n  r) - 1.325 million.
- Wireless lines customers Worldwide - 4 million.
- Telex (Personal paging service) - 419 000.
- On-line services (Minitel, Internet access) around 25,000 services.

1996 Consolidated revenues

France Telecom's 1996 consolidated revenues increased to FF 151.3 billion, up 2.3% in comparison with 1995.

In fixed line telephony, traffic volume has grown (+ 4.5 %) due mainly to new services such as Numeris, which provides ISDN B channels, decreases in tariffs and mobile usage which recorded unprecedented growth in the French market. Mobiles accounted for 7.4 % of the company's revenues in 1996 compared with 5.5 % in 1995.

France Telecom's revenues from its itineris cellular service grew by 72 % and the number of itineris subscribers doubled to 1.3 million by year end.

However, revenues from fixed line telephony services remained fairly flat (- 0.2 %), due to France Telecom's tariff rebalancing process.

1996 Financial Statement

France Telecom's operating income before special items related to the change in France Telecom's status, rose to FF 30.3 billion.

Net income before special items (relating to the change in France Telecom's status) reached FF 14.5 billion compared with FF 14 billion in 1995.

France Telecom's consolidated net income amounted to FF 2.1 billion, in comparison with FF 9.2 billion in 1995. The difference resulted primarily from non-recurring exceptional charges.

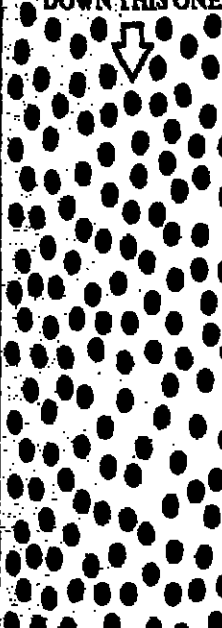
1996 Marked by International Development

Launched in January 1996, Global One, the strategic joint venture with Deutsche Telekom and US operator Sprint now provides global voice and data services to businesses, carriers and consumers worldwide, contributing to revenues for the first time, with an operating revenue of around \$ 800 million.

France Telecom has a worldwide presence and was successfully able to export the group's expertise with new contracts in Europe, both West and East, the Far-East and Africa.

France Telecom

TO SAVE ALL THESE TREES WE HELP CHOP DOWN THIS ONE



Typical hardwood trees are more valuable to loggers than other trees in the rainforest.

High prices for hardwoods ensure that loggers have no qualms about decimating other trees that stand in their way.

So a WWF project in Costa Rica is researching ways of killing a tree without bringing down several others around it. And how to remove a widow-bulbous tree through the surrounding forest.

If the rainforests are used wisely, they can be used forever. Help WWF prove this in rainforests around the world, by writing to the Membership Office at the address below.



World Wide Fund for Nature

COMPANIES AND FINANCE: THE AMERICAS

Comsat to sell off non-core activities

By Christopher Parkes
in Los Angeles

Comsat, the US satellite services company, is to sell off its entertainment division and a subsidiary that makes land-based dish equipment in an attempt to return to its roots and restore earnings growth. The company will also press for privatisation of Intelsat, an international satellite consortium in which it owns a 20 per cent stake, and seek an end to regulatory oversight of its finances.

The plan was unveiled yesterday

by Ms Betty Alewine, who was appointed chief executive last summer when Comsat profits were in free fall. Results released last month showed 1996 net income down 77 per cent at 18 cents a share.

Morgan Stanley, the investment bank, is to advise on the shake-out, the success of which will depend heavily on how effectively Comsat can be extricated from Federal Communications Commission control.

Regulation by the FCC of its rate of return was "no longer appropri-

ate in current market conditions", the company said.

Comsat, a public company set up by Congress in the 1960s to manage the US stake in the Intelsat consortium, has suffered from the emergence of powerful, non-regulated competitors such as Hughes Electronics and Loral.

However, it has also moved into business sectors far removed from its core activities. Ascent Entertainment, of which Comsat owns 51 per cent, is a leader in the hotel pay-movie business and owns baseball and ice hockey teams.

Ascent has been on the market for several months, but with no bidders in the offing. Comsat has now made a request to the federal tax authorities for permission to spin it off as a tax-free dividend to shareholders.

A sale is also planned for Comsat RSI, a manufacturer of earth stations and advanced antenna and wireless systems.

The aim was to create a smaller company with a stronger balance sheet, Ms Alewine said. The remaining businesses, providing international satellite communica-

tions over Intelsat and Inmarsat, another internationally-owned satellite system, were well positioned in international markets and enjoyed a distinct competitive advantage, she added.

Cash flow from these divisions would help Comsat develop its digital network services, which already serve more than 600 corporate customers in a dozen countries.

Indications of prospects for deregulation are expected to emerge next month from a meeting of Intelsat government stake-holders.

Allen Born express rolls on

George Stoe departure may even have helped Alumax revamp

The message from Alumax, third largest of the US aluminium groups, earlier this month was to the point. Mr George Stoe, a vice-president and director, had resigned "as a result of management differences. No replacement will be named immediately as the company will use this opportunity to consider organisational changes."

Analysts said that this looked like a serious defection from Alumax, which Mr Allen Born, chairman and chief executive, has been changing dramatically since it was spun off from Cyprus Amax four years ago.

Mr Stoe had been with Alumax for 27 years and was frequently spoken of as heir apparent to 64-year-old Mr Born, who signed up to serve for five years after the spin-off in 1993.

Within days of Mr Stoe leaving, Mr Born announced he had set up "the office of the chairman" which would include Mr Tom Johnston, an executive vice-president, and Mr Lawrence Frost, executive vice-president and chief financial officer. Mr Johnston has had a long association with Alumax and its predecessor, Amax.

Mr Born says: "Tom Johnston and I have worked

together in Australia, Asia, Japan, Europe and the US. He is one of the most astute businessmen I know. With our increasing international focus, he is the right man, at the right time, for the job."

Mr Born notes that so far he has been the only person responsible for Alumax's long-term strategy. "Now I have an operations expert and a financial expert to share the burden."

He admits he was already in the process of setting up the chairman's office before Mr Stoe departed. This leads some observers to jump to the conclusion that the process had something to do with the disagreement.

But Mr Born will not be drawn about this. "George [Stoe] asked us not to talk about the subject of the disagreement. All I can say is that there is no personal animosity between us. He will tell you I have been one of his greatest supporters."

He dismisses the idea that Mr Stoe was his natural heir apparent. "Any chief executive worth his salt has internal and external candidates lined up as possible successors. The board would want a group of candidates to choose from."

In any event, some of the pressure to find a replace-

ment has eased because late last year Mr Born agreed to extend his contract to 1999.

Already he has spearheaded substantial change at Alumax, under what was dubbed Project Abe (for Allen Born's express). He recalls that after Alumax became a stand-alone company it was suffering losses and was deep in debt, but "we could have hunkered down and waited for the aluminium price to improve. We decided that was not enough."

Project Abe has so far involved Alumax restructuring its aluminium sheet operations by closing two rolling mills, leaving the cut-throat can sheet market and selling its sheet distribution business. It also sold some non-core assets, raising \$770m.

That more than covered the \$430m cost of an important strategic acquisition, the Cressona company, a deal which Mr Born took a year to complete. Cressona more than doubled the size of Alumax's extrusions operations and gave it the largest soft alloy extrusion manufacturing capacity in the world. Mr Born expects demand for extrusions from the transport industry alone

to grow at an annual 10 per cent for at least five years.

There were also investments: \$91m to upgrade and expand rolling mills in Lancaster, Pennsylvania, and Texas; \$26m for a new cast aluminium plate facility; \$31m for a wide-foil mill; \$100m for two new automotive component plants and \$40m for a foil joint venture in China.

Meanwhile, throughout all its business units Alumax was shifting the product mix towards more customised and higher-margin products. For example, Alumax has quit the market for household foil but is concentrating on ultra thin foil of the type used in yoghurt pots lids or to wrap cigarettes. "This foil costs at least 50 cents a pound more than commodity household wrap," Mr Born says.

Alumax remains committed to being a low-cost producer of primary aluminium. "If you are a low-cost primary producer you must make money," Mr Born insists. Alumax's own operations absorb about 60 per cent of its primary output but the company will need more capacity early next century.

It looked at the possibility of bidding for some of the



Allen Born: 'Any chief executive worth his salt has internal and external candidates lined up as possible successors'

aluminium production assets being privatised by the Venezuelan government but walked away when it was clear no guarantee would be given about future power costs. However, it is still considering a new smelter in Iceland in partnership with other groups.

Capital spending is winding down at present - it will be about \$350m in 1997, including \$97m for the purchase of the Texas mill which is leased. "But the

benefits from these investments will begin to appear in our financial and operating results over the next few years," he says. There will be no more big sales or purchases in the near future. "It is time to digest what we have done so far and to make sure the balance sheet is completely healed so we can snap up opportunities if they come along."

Kenneth Gooding

AMERICAS NEWS DIGEST

Domtar seeks three-way merger

Two leading eastern Canada forest products groups have raised the possibility of a merger that would create one of the world's biggest pulp and paper groups. Domtar, a producer of newsprint and fine paper which this week is seeking shareholder approval for its C\$1.5bn (US\$1.2bn) share exchange offer for Repap, a coated paper producer, said it had been approached by Domtar with a proposal to merge once the Repap deal goes through.

Domtar, a big producer of business and fine papers, told Avonor that Quebec's public pension fund manager, the Caisse de Depot, supported the plan. The Caisse, which holds almost 10 per cent of Avonor's shares and is one of several big institutional holders of both Avonor and Domtar, confirmed that it would vote against the merger of Avonor and Repap after Avonor's refusal of its proposal to put all three companies together.

Domtar repeated its proposal on Friday, but Avonor said its board decided it would be "inappropriate and unreasonable" to negotiate such a deal "at this time". Mr Denis Aubin, Avonor chief financial officer, said he believed the Repap merger would close on schedule. "We believe we have got strong support from our shareholders. We need two-thirds. We believe we're there," he said.

Avonor said it would examine as soon as possible all its strategic options once the Repap merger was completed. But it did not rule out a future deal with Domtar. The merger of the two would create a highly competitive pulp and paper group with annual revenues of nearly C\$2bn. Last Monday Domtar formed a technical partnership with Finland's UPM-Kymmene, including agreements to explore areas of mutual interest. Last December, Kymmene, a big coated paper producer, considered buying Repap as a foothold in North America.

Robert Gibbins and Rainer, Montreal

Tenneco buys KNP packagers

Tenneco, the US packaging group, said yesterday it would pay about \$375m for 17 plastic packaging companies now owned by KNP BT, the Dutch paper packaging and distribution company. KNP predicted book profits of F1 180m (\$75m) from the sale and said it would concentrate on its waste paper packaging and board activities, which it claims are the third-largest in Europe.

Shares in KNP shed F1 0.10 to reach F1 39.00 on a slightly depressed Amsterdam exchange. The two companies had announced the sale in January, but pricing details only emerged yesterday. The plastic packaging division, which employs 5,000 in Europe, Egypt and North America, reported net sales of about F1 1.1bn last year, and Tenneco said the purchase would double its sales in Europe.

"Acquiring this part of KNP BT makes us a leader in protective packaging in both the US and Europe and positions us for global growth serving such major industries as health care, electronics and auto parts," said Mr Paul Stecko, Tenneco chief operating officer. In the past two years, Tenneco has made approximately \$1.5bn in packaging acquisitions, including Mobli Plastics, Amoco Foam Products and Delyn Plastics and Penlex. KNP said last week that its first-quarter results would lag behind last year's in its three main activities. KNP plans to shed 1,000 jobs from its paper division and halt investments in this sector as it tries to find a partner this year. It also announced a new joint venture with Asia Pacific Resources International, of Indonesia, to produce coated fine paper at Changshu, near Shanghai in China. KNP would contribute equipment which was being replaced at KNP's plant in Austria.

Sander Thomas, Amsterdam

PDVSA unveils \$4.5bn profit

Petróleos de Venezuela (PDVSA), the Venezuelan state-owned petroleum company, announced record profits for 1996 of Bz\$2,550bn (\$4.5bn), up from Bz\$2.9bn in 1995. Giving the results during its first annual shareholder's meeting, it said export oil prices were on average \$3.5 a barrel higher than in 1995, though production of crude oil and condensates also increased over the previous year by 7 per cent, to 3.42m barrels a day. PDVSA attributed the improved performance to "continued efforts at cutting costs, increasing efficiency and its ability to respond to market changes."

The holding company paid the state Bz\$4,400bn in taxes and dividends last year, the highest amount ever. Last May's sharp increase in domestic petrol prices led to a reduction in petrol demand of 7 per cent, but increased demand for gas by 8 per cent. Raymond Collis, Caracas

Shell Canada plans stock split

Shell Canada, part of the Royal Dutch/Shell group, is planning a three-for-one split of its class A shares. Mr Chuck Wilson, Shell Canada chief executive, said: "We believe the stock split will benefit all shareholders by increasing the number of shares available for trading, and the lower share price will appeal to a broader range of investors."

The proposed split required shareholder approval at Shell Canada's annual meeting on April 30. If shareholders approved the proposal, the record date would likely be near the end of June, Shell Canada said. "Shell Canada's share value has enjoyed steady growth from about C\$34 in early 1995 to its current level of approximately C\$57 per share," said Mr Wilson. Shell Canada shares were at C\$56.50 before being halted yesterday for the stock split announcement. The company has 112.6m class A shares outstanding. Rainer, Calgary

Cisco in Internet trial deal

Continental Cablevision, the US cable-TV operating arm of US West Media Group, and Cisco Systems plan to conduct trials of Cisco's most advanced Internet technologies. The companies said they would test technologies to deliver broadband Internet applications and services, including high-capacity streaming video, telephony over the Internet and interactive games. They also said they had agreed a marketing deal that would make Cisco networking products and support available to Continental customers as part of a one-stop shopping effort. Rainer, Boston

Leo Burnett chiefs quit in row over costs

By Richard Tomkins
in New York

Two top executives at Leo Burnett, the Chicago-based advertising agency, have unexpectedly left the company following an employee revolt against a cost-cutting drive.

Mr William Lynch, the 54-year-old chief executive, tendered his resignation after being told on Friday that he had lost the confidence of the majority of the board. His colleague Mr James Jenness, the 50-year-old chief operating officer, resigned with him.

Leo Burnett, which had billings of \$5.82bn last year, ranks among the world's biggest and oldest-established advertising agencies. Creator of Tony the Tiger for Kellogg, the US cereal company, it has a large roster of blue chip clients including McDonald's, General Motors, Procter & Gamble and Walt Disney.

The company is privately owned by 250 shareholders who are all employees, and when people retire or leave, they are required to sell their shares back. Profit figures are not published.

Mr Lynch's cost-cutting began in 1993 at the request of the board, which wanted to rein in the company's spending.

Before then, Leo Burnett reportedly spared little expense in preparing for new account pitches or client pre-

sentations. Mr Lynch brought in Mr Jenness to help him boost efficiency, and their focus on costs, apparently improved profits. Yesterday, the company said its financial position had "never been stronger", thanks largely to the efforts of Mr Lynch and Mr Jenness.

However, the cost-cutting began to rankle among employees, who felt the penny-pinching was inhibiting their ability to serve their clients properly and threatening the long-term future of the company.

The crunch came last year when Leo Burnett lost the highly-valued account for United Airlines, a client the company had served for 31 years and for which it had created the famous "Come fly the friendly skies" slogan. It also lost creative duties at another high-profile account, Miller Lite.

The loss of these accounts may not have been directly related to the cost-cutting drive, but it helped undermine confidence in top management.

Leo Burnett said yesterday that Mr Lynch and Mr Jenness had decided to resign "in the best interests of the company."

Mr Lynch's place will be taken by Mr Richard Fildale, the 57-year-old chairman. Mr Fildale, who had been due to retire this year, handed the chief executive's job to Mr Lynch four years ago.

New Windows faces delay

By Nicholas Denton
in San Francisco

Personal computer manufacturers may miss the boost to consumer demand they were expecting from the release of a new generation of the Windows operating system software before the peak pre-Christmas sales season.

Microsoft, the software company which has developed Windows, said yesterday it had not yet determined whether the next version would be ready this year, but had warned PC makers there was a chance it would not be ready to be installed on machines for the crucial final quarter.

Delays are the norm in perfecting the complicated computer code of an operating system. Apple Computer's new operating system is several years late.

However, many manufacturers, looking to revive flagging PC sales in regions such as Europe, had taken Microsoft's intention to distribute a trial version of the operating system by mid-year as meaning a possible full release in 1997.

Important revisions to operating systems, such as Microsoft's launch of Windows 95 two years ago, typically stimulate hardware sales because the programmes, usually larger and more complicated than their

predecessors, require faster processors and larger hard disks to run properly.

A delay in the new Windows, which is designed to integrate Microsoft's Internet Explorer software for navigating the Internet, would give a breathing space to Netscape, Microsoft's main competitor in the market for browsers and other Internet software.

The likely delay gives Netscape, best known for its Navigator browser, more time to establish its Constellation software due out later this year. Like the new Windows, this is meant to allow users to navigate their hard disk and the Internet with a similar visual interface.

SAMANTHA INVESTMENTS PLC

£20 million Subordinated Floating Rate Notes Due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from 21st March 1997 to 22nd September 1997 the Notes will carry interest at the rate of 8.125 per cent per annum.

Interest payable on 22nd September 1997 will amount to £4,118.15 on each £100,000 Note.

West Merchant Bank Limited Agent Bank

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Aktiebolaget SKF will be held at SKF Kristinehed, Byfogedgatan 4, Göteborg, Sweden, at 3.30 p.m. on Tuesday April 15, 1997.

Annual General Meeting

Notice of attendance

For the right to participate at the meeting, shareholders must be recorded in the shareholders' register kept by the Securities Register Centre (VPC AB) by Friday April 4, 1997 and must notify the company before noon on Friday April 11, 1997, preferably in writing, otherwise by telephone, of their intention to attend. (AB SKF, SE-415 50 Göteborg, Tel. +46 31 37 2436, fax +46 31 337 1691) giving details of name, address, telephone and registered shareholding. Where representation is being made by proxy, the proxy form shall be sent before the date of the meeting. Shareholders whose shares are registered in the name of a trustee through the Trustee Department of a bank must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place by Friday April 4, 1996. This means that the shareholder should give notice of his/her intention to the trustee in plenty of time before that date. A re-registration fee will normally be payable to the trustee.

Agenda

1. Opening of the AGM.
2. Election of chairman of the meeting.
3. Drawing up and approval of register of voters.
4. Election of minutes-checkers.
5. Confirmation that meeting has been correctly called.
6. Presentation of annual report and auditors' report as well as consolidated financial statements and consolidated auditors' reports.
7. Address by the Managing Director.
8. Resolution on adoption of the income statements and balance sheets and consolidated income statements and consolidated balance sheets.
9. Resolution that the directors of the board and managing director are discharged from liability.
10. Resolution regarding distribution of profits.
11. Determination of number of board members and deputy members.
12. Determination of number of auditors and deputy auditors.
13. Determination of directors' fees.
14. Determination of auditors' fees.
15. Election of board members and deputy members.
16. Election of auditors and deputy auditors.

Dividend

The Board of Directors proposes a dividend for the financial year 1996, of 5 kronor 25öre per share. It is recommended that shareholders with holdings recorded on April 18, 1997 be entitled to receive the said dividend. Subject to acceptance by the Annual General Meeting, it is expected that the Securities Register Centre will send out notices of payment to recorded shareholders and listed depositaries on April 25, 1997.

Election of Board members

Shareholders, who together represent somewhat more than 50 % of the votes for the total number of Company shares, have informed the Company that they recommend for re-election Ordinary Board Members Anders Scharp, Gösta Bystedt, Mauritz Sahlin, Giovanni Mario Rossignolo, Per-Olof Eriksson, Sone Carlsson, Peter Augustsson and as new member Sören Gyll. Michael Treschow has declined re-election.

Sören Gyll was born in 1940. He has been Managing Director of AB Volvo and Group Chief Executive of Volvo since 1992.

Göteborg, March 1997

Aktiebolaget SKF

(publ)

The Board of Directors

SKF

COMPANIES AND FINANCE: ASIA-PACIFIC

Cosco to raise HK\$1.2bn for port purchases

By Louise Lucas
in Hong Kong

Cosco Pacific, the world's fifth-largest container leasing company, is to raise HK\$1.2bn (US\$155m) through a share placement to help fund its purchase of ports in China and throughout the Asia-Pacific region.

Funds will initially be used to buy shareholdings in Chinese ports from the parent company Cosco (Hong Kong), the local arm of China's state-owned China Ocean Shipping.

Cosco Pacific said earlier this month it was negotiating an acquisition from its parent, and yesterday named the four ports involved in the HK\$450m purchase. It will buy 50 per cent of Qingdao terminal, 51 per cent of Zhangjiagang terminal, 10 per cent of Shanghai and 5 per cent of Yantian.

The price is in line with the favourable terms normally accorded to red chips - mainland-backed companies listed in Hong Kong - whose assets are injected from the parent. It represents a 51 per cent discount on the net asset value (including a HK\$800m shareholders' loan) of HK\$655m, and a 52 per cent discount on the appraised value of HK\$64m.

Combined throughput at the four ports last year was 2.2m TEUs (twenty foot equivalent units), and is forecast to reach 4.6m TEUs by 2000.

Remaining proceeds from the placement will be used to expand terminals and container manufacturing plants, with HK\$494m earmarked for further acquisitions of container terminals in the Asia-Pacific region.

BZW is acting as financial adviser to Cosco Pacific and the placing was underwritten by both the UK investment bank and Salomon Brothers, of the US.

The placement price of HK\$9.95 a share represented a discount of 5 per cent to Friday's closing price of HK\$10.50.

Yesterday the company also announced a 63.3 per cent rise in annual net profits last year, from US\$46.36m in 1995 to US\$75.7m.

The increase was attributed to a 17.9 per cent expansion in the container fleet, growth in container leasing and enhanced profit margins at the Hong Kong container terminal.

Earnings per share rose 4 per cent, from 4.21 US cents last year to 4.38 US cents. The final dividend is to be lifted from 8 HK cents to 9 HK cents.

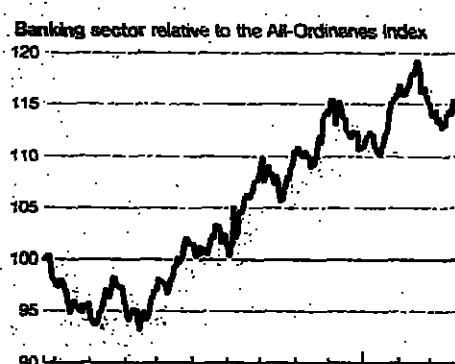
Shaking the 'six pillars' of banking

Market expects mergers to follow biggest review of Australian financial sector since 1981

NAB buy-back to go ahead

National Australia Bank, the country's largest commercial bank, said yesterday it was going ahead with plans to buy back and cancel 89.25m shares, or just under 6 per cent of its issued capital, writes Nikki Tait. The buy-back will run until October, or until the full number of shares has been acquired. NAB shares closed 42 cents higher yesterday at A\$15.93.

Heads or tails



Banking sector relative to the All-Ordinaries Index

Source: Datastream, NAB, Banking Statistics

Deposits (% share)

Other

Regionals

Commonwealth

National Australia Bank

Westpac

ANZ

Lending (% share)

Other

Regionals

Commonwealth

National Australia Bank

Westpac

ANZ

momentous, espousing deregulation and paving the way for a floating of the Australian dollar and admission of foreign banks to the domestic market. While the Wallis inquiry's focus has been narrower, it is expected to shape the sector for a decade at least.

Much of the immediate attention will be focused on recommendations for takeovers and mergers. At present, these are constrained by the "six pillars" rule, which prohibits mergers between the "big four" commercial banks (National Australia Bank, ANZ, Westpac and Commonwealth) and the two big insurers (AMP and National Mutual).

This is the first significant review of the country's financial sector since 1981, when the Campbell report was published. The ramifications of that study were

petitive implications at state level, insisting that there be at least one strong regional contender (in addition to the big four banks).

But in submissions to the inquiry, all the big groups have argued that the "six pillars" rule should go, and most analysts expect Wallis to endorse this. Caution has been sounded by the Reserve Bank, the central monetary authority, which warned that shrinking the number of big banks from four to two would result in "the most concentrated banking industry in the industrialised world".

However, there has been disagreement over whether the relevant banking market definition, when competition issues are considered, should be regional, national or - as

argued by ANZ - global. Also being considered is the extent to which new non-banking concerns should be encouraged to enter the sector.

Specific issues likely to be considered by Wallis are whether to make access to the payments system easier; whether to implement legal changes to encourage electronic commerce; and whether to let financial services conglomerates develop under a holding company structure. Barriers to foreign entrants will also be up for review.

Recommendations on the regulatory front could have equally far-reaching consequences. If distinctions between banks and insurers, say, are blurring, there is strong argument for installing a "mega-regulator" and shifting responsibility for

regulation away from the central bank. The big insurers, like the AMP and National Mutual, favour this, as does NAB. But other banks prefer the current system, under which the Reserve Bank handles both monetary policy and banking supervision.

If Wallis does recommend a more permissive regime, there is a general expectation that deals will flow: hence the surge in bank shares. Already, competition in the home loans market has encouraged consolidation among regional banks.

But not everyone thinks that there will be an immediate merger rush. Mr Graham Maloney, analyst at Macquarie Bank, warns that, regardless of Wallis's conclusions, the ACCC's interpretation of any new regime will be "even more important".

He is also doubtful of the appeal of Australian banks to foreign parties - despite frequent speculation that the likes of Hong Kong & Shanghai and Standard Chartered are looking. "Offshore banks generally regard Australia as too competitive and too expensive," he warns.

Meanwhile, Mr Peter Costello, federal treasurer, has cautioned that the stock market should not jump to hasty conclusions. "I want to make clear... that nobody should take any commercial decision on the basis of the report's recommendation... Current policy stands until the government announces the policy changes," he has stressed.

But yesterday, the speculative rise in bank share prices seemed an unstoppable tide.

Nikki Tait

ASIA-PACIFIC NEWS DIGEST

MRCB to lift stake in TV3

Malaysian Resources Corp (MRCB), a diversified conglomerate, is preparing to divest its stake in the New Straits Times Press, the largest newspaper publisher, to TV3, a television station. TV3 is to finance its purchase by issuing new shares to MRCB, resulting in MRCB's stake in TV3 increasing to more than 50 per cent from 43.2 per cent. TV3 is feeling the effects of competition from Measat Broadcasting Network Systems.

James Kyng, Kuala Lumpur

Loss for Daiwa Securities

Daiwa Securities, one of Japan's top four brokerages, said it was expecting to make a substantial after-tax loss for the year to March 31. The company announced last year it would provide ¥120bn (US\$980m) in financial assistance to a non-banking affiliate, Daiwa Finance, and had planned to use gains from selling securities to cover the resulting exceptional loss, but the poor state of the stock market had forced it to reconsider. *Beihai Hutan, Tokyo*

Semen Gresik advances

Semen Gresik, Indonesia's largest publicly-listed cement company, said net income rose 26 per cent last year, supported by the acquisition of two cement companies in 1995. Net income was Rp219.3bn (US\$91m) on net sales which increased 66 per cent to Rp1,363bn. Operating income rose 54 per cent to Rp321.5bn.

Martela Saragosa, Jakarta

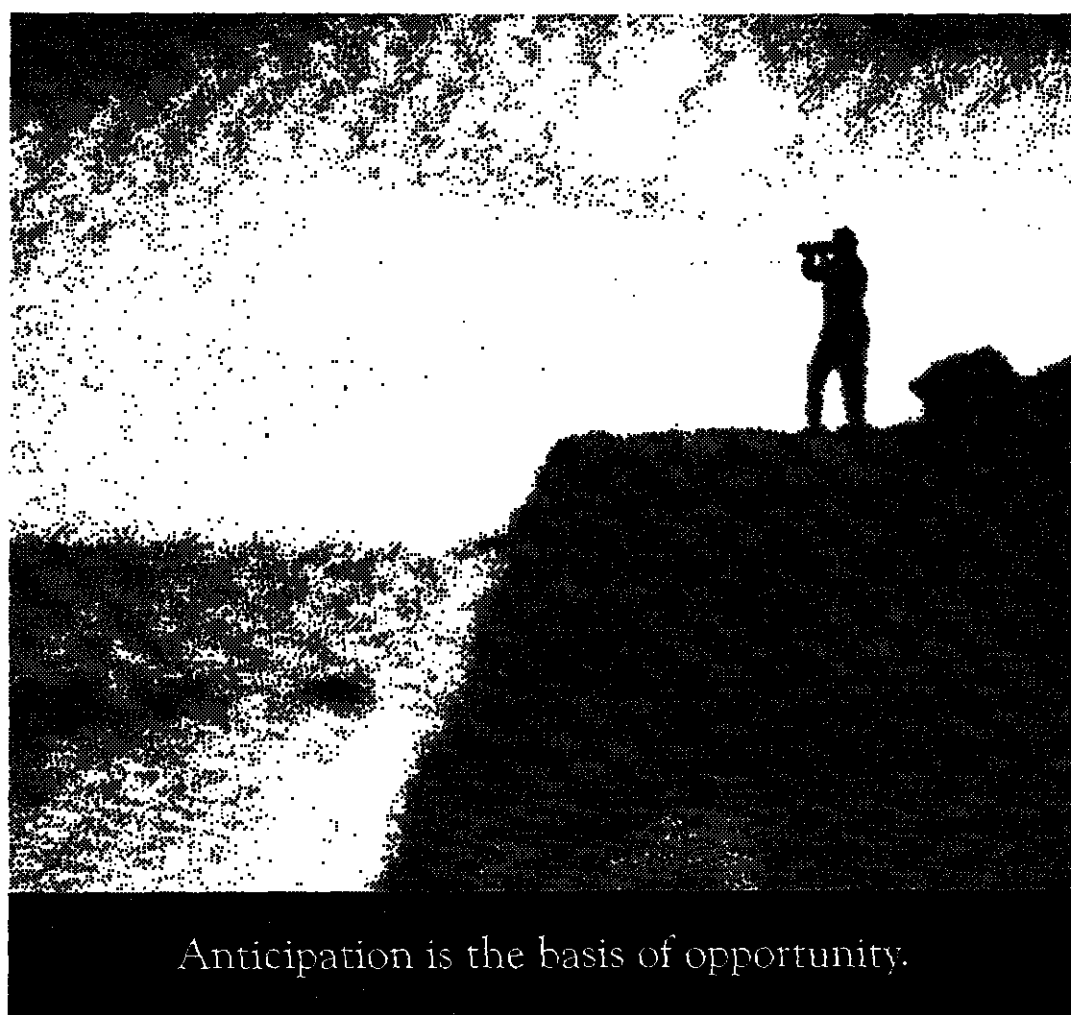
Filinvest profits up fourfold

By Justin Marozzi in Manila

Filinvest Development Corp (FDC), one of the Philippines' largest property and industrial development companies, more than quadrupled net profits last year to 4.03bn pesos (\$153m) after strong gains in its commercial property business.

Sales rose sharply, trebling to 6.8bn pesos, led by the group's property businesses. Filinvest Corporate City, a 244 ha business and residential development of FDC and its subsidiary Filinvest Alabang, led the surge, contributing 2.73bn pesos to revenues after lots sold increased from less than two hectares to five hectares.

FDC shares rose slightly to close at 7.5 pesos, up 10 centavos. Analysts said the group's shares were trading on a forward multiple of about 8.6 times, a substantial discount to the sector at 17.9 times.



Anticipation is the basis of opportunity.

SECURITIZATION

Financial Advisor to
Sole Placement Agent

Teléfonos de México,
S.A. de C.V.

\$280,000,000

For a up-to-date grade
rated securitization of future
long-term payments

Bankers Trust

Unique insights stem from unique knowledge. Knowledge that often comes from long-term, committed relationships. This was the case with Bankers Trust and Teléfonos de México, S.A. de C.V. (Telmex), Mexico's premier telecommunications provider. It was our long-standing relationship that allowed us to understand and anticipate Telmex's need to raise capital by arranging a short-term financing solution that was both cost-effective and quickly executed. More importantly, it was our relationship

that allowed us to uncover a market opportunity that others had not yet anticipated. Our extensive structured finance expertise, our insight into the international capital markets and an understanding of our clients' objectives enabled us to creatively structure this deal. The combination of the investment grade rating, short-term maturity and desirable yield made the securitization very attractive to a large group of investors. So attractive, in fact, that although the transaction was initially sized at \$200 million, market appetite was so strong that it allowed Telmex to increase the size of the financing to \$280 million. We welcome the opportunity to discuss how we can develop equally innovative solutions to your financial challenges.

Bankers Trust
Architects of Value

CableMedia, which is quoted on the US Nasdaq market, will be valued at 0.691 of a CWC share, while each share in Nynex CableComms, traded in London, will be valued at 0.367 of a CWC share.

After the merger, Nynex Corp and Bell Canada will own 18.5 per cent and 14.2 per cent respectively. About 15 per cent of the shares will be held by the public. The first closing date of the offer is expected to be April 25.

Governance

On the other hand, his experience and knowledge can often be valuable. The balance depends on the individual and the circumstances; this should be a matter of case-by-case judgement, not a crude general rule. And institutions should be wary of swamping the argument with doubtful rules; they unhelpfully distract from sound-based governance principles which matter more.

The real lesson? Simply that a clearer sense of institutions' priorities is required. And more dialogue between them is needed to achieve it.

The aim should be to spotlight the principles which really matter, and the constraints which fail to fire up the system. Less convincing proposals, however well-intentioned, should not be allowed to get in the way.

Blue Circle makes first Canadian purchase

Profits were assisted by a big turnaround in the European heating division, following its reorganisation, with profits doubling to £35m. Costs worth £26m a year had been taken out of the business.

Another £5m a year of savings were expected to be released over the next two years. Bathroom profits, however, dipped to £24.6m (£27m) reflecting tough trading profits in continental Europe.

Urgent, aggregates and concrete profits rose by 19 per cent to £75.3m helped by a combination of price and volume sales increases.



Inchcape gets Toyota boost

its Testing Services arm to management and Bein Hoge, its insurance broker, to Aon Corporation, raising a total of \$540m and clearing all debts.

Mr Cushing, chief executive, hailed the profit improvement as "the beginning of a brighter future".

The high costs of opening shops in Japan to sell Timberland boots and clothes caused operating profits from the international marketing operations to fall 7 per cent to \$30.2m.

Efforts by Incheape to replicate the success of its Chilean Coca-Cola bottling operation in Peru and Russia also met mixed success. The Peruvian soft drinks market shrank by eight per cent, while contracts for one of the company's second pair of Russian plants has fallen six months behind schedule.

Incheape yesterday reinforced its grip on the Peruvian bottling, Emulador, Latinoamericana, which it controls, has agreed to buy the San Luis table water brand and Kola Inglesa, a soft drink, for \$24.6m.

Mr Cushing said Incheape was seeking to acquire more bottling companies around the world, with the blessing of Coca-Cola.

Former UA boss in cinema move

Mr Stewart Blair, former chairman of United Artists Theater Circuit, the largest cinema chain in the world, has joined a small London-based company, Pacific Media, to begin building up a new international cinema group outside the US.

Mr Blair, also a former senior vice president of Telecommunication Inc, the largest US cable company, resigned from UA in December.

The Scottish born executive is joining Pacific Media, a company listed on the Alternative Investment Market, as chief executive of a newly created subsidiary to develop, build and operate cinemas throughout the world outside of North America.

Brazil and South Africa are likely to be the first targets.

"The international theatre business is the growth area of the at-home entertainment business," Mr Blair said yesterday.

Pacific Media currently has a joint venture with United Artists to develop cinemas in the Far East through which two cinemas are operating successfully in Singapore and two more are

		Turnover (mill)	Pre-tax profit (mill)	EPS (¢)	Current payment (¢)	Date of payment	Dividends (mill)	Conspiring dividend	Total for year	Total last year		
Acme	Yr to Dec 31	324.6	(244.1)	11	(5.32)	22.4	(12.7)	6	May 30	4.7	0	7.1
Auto-Rite	Yr to Dec 31	180.4	(178.3)	44.6	(78.29)	17.9	(35.3)	4.5	June 26	4.5	0.5	4.5
Bank of America	Yr to Dec 31	195	(18.7)	10.5	(37.51)	33.8	9.75	1.8	May 19	8.5	15.1	15.9
Bank of Boston	Yr to Dec 31	1,819.5	177.5	257.6	37.59	23.5	18.4	9	July 1	8.5	13.3	12.5
Bank of California	Yr to Dec 31	204.8	(163)	26.2	(21.8)	40.7	(31.5)	10.75	July 1	1.5	1.8	1.25
Bank of Chicago	Yr to Dec 25	17,602	(10,102)	6.05	(4.74)	12.21	(6.8)	2	May 9	3.7	8	24.6
Bank of Commerce	Yr to Dec 31	207.1	(30.2)	8.06	(6.08)	15.31	(25.6)	4.2	May 31	2.74	5.3	3.6
Bank of Hawaii	Yr to Dec 31	55.4	(54.2)	0.959	(0.855)	5.93	(3.7)	1.5	May 16	1.28	2.3	2.25
Bank of India	Yr to Dec 31	5	9	9.97	9.414	10.48	5.3	0.51	-	-	-	-
Bank of Japan	Yr to Dec 31	8.17	(6.76)	0.752	(0.526)	8.7	(6.1)	1.2	May 23	1	3.5	3
Bank of Korea	Yr to Dec 31	84.7	(47.3)	2.22	(15.39)	38.81	(28.4)	9	May 23	6	19	11.8
Bank of London	Yr to Jan 31	1.45	(0.756)	0.372	(0.24)	0.11	(0.08)	0.44	May 31	0.4	0.05	0.6
Bank of Mexico	Yr to Dec 31	146.2	(118.4)	4.73	(9.1)	1.07	(1.51)	1	July 1	1.4	0.75	1.85
Bank of Montreal	Yr to Dec 31	137.1	(27.9)	2.729	(1.29)	4.88	(2.9)	1	May 31	0.75	1.05	1.05
Bank of New York	Yr to Dec 31	6,263	(6,226)	107.4	(17.44)	4.3	(6.3)	6.3	July 1	4	11,022.2	11,524.2
Bank of Paris	Yr to Dec 31	41.7	(23)	3.9	(2.196)	3.4	(1.9)	1.5	May 22	6.05	1.65	1.25
Bank of St. Louis	Yr to Dec 31	11.1	(8.52)	0.307	(0.13)	0.26	(0.15)	-	-	-	-	-
Bank of Tokyo	Yr to Dec 31	126.1	(83.4)	13.3	(6.17)	9.76	(16.7)	2.6	June 25	2.3	4.6	3.7
Bank of Union	Yr to Dec 31	12.5	(1.9)	1.919	(1.29)	4.88	(2.9)	1.2	May 31	0.75	1.05	1.05
Bank of Virginia	Yr to Jan 4	397.5	(947.8)	100.2	0.5	26.1	(25.2)	6	July 7	7.55	16.8	13.8
Bank of West	Yr to Dec 31	120	(120.1)	2,024.4	(6.31)	5.425	(5.79)	2.2	May 23	2	3.6	3.15
Bank of Wisconsin	Yr to Dec 31	2.69	(2)	0.2839	(0.212)	3.47	(2.67)	7	May 27	0.75	1	0.75
Bank of World	Yr to Dec 31	15.1	(12.4)	3.714	(2.53)	5.4	(4.5)	2.5	June 2	2	3.6	3.25
Bank of York	Yr to Dec 31	54.65	(49.81)	4,256	(6.86)	5.33	(6.86)	3.91	May 16	3.59	5.95	5.75
Bank of the South	Yr to Dec 31	7.36	(1.77)	1.15	(0.912)	0	(0.8)	-	Apr 25	0.5	1.05	0.5
Bank of the West	Yr to Dec 31	0.689	(0.374)	0.524	(0.23)	7.13	(3.75)	3.75	May 25	4.5	3.75	4.5
Bank of the East	Yr to Dec 31	14.8	(13.8)	1.28	(1.349)	19	(18.5)	3.75	July 1	3	8	5
Bank of the Middle	Yr to Dec 31	2.5	(4.47)	6.21	(1.44)	41	(32.1)	-	-	-	-	-
Bank of the North	Yr to Dec 31	42.1	(41.1)	0.145	(0.13)	16.4	(16.4)	7	May 27	7	13	18
Bank of the South	Yr to Dec 31	7.59	(3.9)	2.05	(0.912)	0	(0.8)	-	-	-	-	-
Bank of the West	Yr to Dec 31	22.6	(2.1)	3.4	(0.449)	2.6	(0.5)	-	-	-	-	-
Bank of the East	Yr to Dec 31	86.1	(59.2)	4.53	(2.22)	16.34	(9.58)	3.5	May 31	2	5.25	3
Bank of the Middle	Yr to Dec 31	168.1	(178.8)	5.014	(7.24)	1.7	(6.8)	2.3	May 21	2.3	3.6	3.6
Bank of the North	Yr to Dec 31	73.5	(63.5)	5.2	(3.64)							

PHILIPS

Subordinated Notes Due 2009	
Borrowed Rate	5.625% per annum
Interest Period	2nd March 1987 2nd June 1987
Interest Payment Due	2nd June 1987
per U.S. \$100,000 Note	U.S. \$759.14
per U.S. \$50,000 Note	U.S. \$379.58

TECHNOLOGY

The pharmaceutical industry looks likely to benefit from breakthroughs in testing for impurities and screening chemical compounds

Leading pharmaceutical companies are testing new technology which its maker claims could in some applications render obsolete the century-old Agar plate method of identifying harmful micro-organisms.

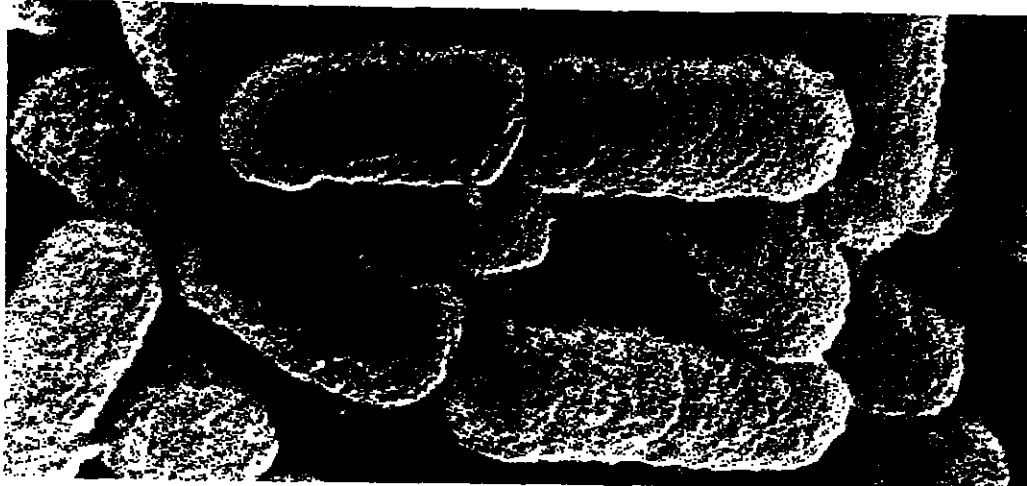
Merck of the US, Rhône-Poulenc of France, and the UK's Glaxo Wellcome are among the first companies to evaluate the ChemScan Rapid microbial analyser, which is used to test the purity of water in their products.

Instead of having to wait for up to seven days to develop live cultures in a Petri dish, laboratory workers can detect a single cell of bacteria such as *e.coli* in under three hours.

The analyser relies on a unique fluorescent labelling process that allows it to count and identify single cells on a filtered sample. A sample of water, for example, is passed through a fine membrane which retains the micro-organisms on its surface. After filtration, the membrane is transferred to an absorbent pad saturated with a labelling solution and left for 30 minutes. During labelling, the retained micro-organisms are stained with fluorescent markers via an enzyme-linked reaction with the cell cytoplasm.

The ChemScan, composed mainly of laser beams, mirrors and analytical circuitry, can distinguish between micro-organisms and normal auto-fluorescent particles on the basis of their higher light intensity. A digital signalling system also distinguishes cell characteristics such as shape and size.

Different fluorescence reagents have been developed for specific contaminants.



Tiny menace: the new technique will be able to identify *e.coli* in under three hours

Mark Mulligan reports on a new method of identifying harmful micro-organisms in water

Bacteria buster

The results of the laser scan are represented as a type of map pinpointing and counting microbial cells. The membrane can be examined further under a microscope.

The machine has been developed by French biotechnology group Chemunex, in co-operation with The Technology Partnership near Royston, Cambridgeshire.

Chemunex plans an initial public offering to European institutional investors with a listing today on the Easdaq exchange. Nomura International, which is sponsoring the deal, says Chemunex is looking to raise about FF770m (£7.7m) for further

research, development and marketing.

Louis Foissac, the Chemunex chairman, says real-time detection of contamination in raw material gives producers the chance to stop production without wastage.

"Manufacturers will save valuable material by detecting contaminations sooner, and consumers will be better protected against potential microbial contaminations through faster and more sensitive analytical procedures," he says.

For now, the machine is used mainly to verify the sterility of water in pharmaceuticals production, although Foissac says the technology could be adopted by water companies or anywhere where water purity cannot be compromised. "We've done tests with contact lens solutions - even with shampoo," he says.

Drug companies evaluating ChemScan's effectiveness have declined to publicly endorse it. However, a scientist at one says ChemScan could be applied in most instances where sterility, or an acceptable level of micro-organic growth, had to be evaluated. Apart from water for pharmaceuticals, this includes testing work surfaces, workers' skin and the quality of air.

Chips cut laboratory costs down to size

William Macdonald on how 'miniature' experiments can make drug research work more efficient

a chip about the size of your thumbnail," says Michael Knapp, Caliper's vice-president of science and technology. "There are two interesting things you can do with this technology; one is to create tiny automated systems which are doing complete experiments - a very complicated experiment can be done by a

A chip can mimic apparatus such as pumps, separation equipment, pipettes and beakers

non-expert. The other is to perform a very large number of experiments very quickly."

Although the chip's surface appears to be nothing more than a series of channels, it has features that mimic traditional laboratory apparatus - pumps, valves, pipettes, beakers and separation equipment. The channels are typically 10 microns deep and between 10 microns and 100 microns wide through which liquid is pumped at about 1 nanolitre per second.

To give some idea of the scale, it would take a year for a tablespoon of liquid to flow through these channels. To perform an experiment with the chip, it is inserted into a PC-based "player" in much the same way as a CD. An electric field is applied which causes the fluid to be pumped through the channels by a process known as electrokinetics.

Computer programs control the voltage so that reagents are added and reactions occur in the proper sequence. Finally, a detector reads the fluorescence of the sample and a result is produced.

The chips are produced in much the same way as microelectronic chips through photolithography and chemical etching. Caliper recently signed an agreement with Dow Chemical to start producing the chips in plastic.

"We want to disseminate the technology very widely," says Knapp. "The goal is to keep the chips as cheap as possible. Right now we are making them in glass which is a nice material to work with, but the process of micromachining is quite expensive by comparison to things like injection moulding."

He sees the CD as a potential model for mass production of the chip. "The CD has features that are about the same size as we are talking about," he says.



Decked out: the European Fighter Aircraft will need modification to be able to land on a carrier

Huge fans blowing a gale of wind over the stern of aircraft carriers could make landing fighter aircraft on their decks easier and safer. They may even do away with the need for arrestor wires.

Fighter aircraft such as the Eurofighter (EFA) need serious modification to adapt them for an aircraft carrier. They must be strengthened to carry the arrestor hook, stronger undercarriages are needed to withstand landing shocks and engines need to be uprated.

These are expensive add-on costs. British Aerospace engineers at Farnborough have

Wind of change for aircraft carriers

devised a way of reducing the landing speed needed by creating an artificial wind. Carriers usually steam at up to 20 knots to reduce landing and take-off distances. Extra wind over the deck is gained by steaming into the prevailing wind.

The artificial wind would be created by powerful generators placed beneath the deck at the stern of the carrier. These may

be engine-driven propellers, or more likely, jet engines. The wind would be directed through louvres in the landing deck towards the landing aircraft.

The direction of the air leaving the louvres would be controlled by flaps on the stern to allow for the varying approach angles of different aircraft.

The result should be a sharp reduction in the touch-down

speed of carrier-borne aircraft. Using RB211 jet engines to produce the wind it is estimated that touch-down speeds of less than 20 knots, relative to the aircraft carrier, may be possible for aircraft which normally approach at about 120 knots.

The idea is being tested in a wind tunnel at Farnborough, and is one of a number of projects to enable the EFA to use aircraft carriers. If successful it would be another first for British aeronautical engineers who earlier invented the steam catapult and the angled deck.

Michael Sibley

LAW

Trade ban fails test



EUROPEAN COURT

An EU country cannot prohibit trade between member states in a product manufactured outside the EU, merely because the owner of the trademark in the importing member state does not consent, the European Court of Justice ruled.

The ruling arose in the context of a damages action for breach of contract before the French courts. The action was for wrongful termination of a contract to purchase a plant health product manufactured in Turkey but imported into France from Germany.

The purchaser had cancelled the contract on the grounds that the French trademark owner would not agree to the marketing of the product and that under French law the sale should not go ahead.

The seller of the product argued that French law was incompatible with European law, because under European law products lawfully imported and marketed in any member state could be traded throughout the EU without restriction.

The French court referred the issue to Luxembourg for determination. The Court first found that the relevant European law provisions applicable to the case were those in the European Trade Mark Directive.

These provided that trademark owners were not entitled to prohibit the use of their marks in relation to goods which had already been put on the market in the EU under those marks by their owners or with their consent.

The national court mentioned that the product to be imported into France would not have undergone any change except for the addition of a label designed to comply with French law.

Despite the fact that the case was to be interpreted in the light of the directive's provisions and not those of the treaty, the Court said its jurisprudence on the matter of the exhaustion of trademark rights arising out of judgments dealing with the relevant provisions of the treaty was relevant in the present matter.

That jurisprudence provided that the owner of a trademark protected by the legislation of one member state could not rely on that legislation to prevent the importation or marketing of a relevant product which had been marketed either by that owner or with his consent in another member state.

The Court reiterated that such a doctrine applied where the owners of the mark in both the exporting and importing country were either identical or were different but linked economically.

According to the order for reference from the French court, holders of trademarks in Germany and France fell in those categories.

The Court then held that the fact that the product in question was manufactured outside the EU was of no importance. The judges found that the French rules which allowed the owner of the trademark in France to sue for infringement on the basis that there was no consent for the importation of the product from Germany, were incompatible with European law.

C-352/95: *Phytotron International SA v Jean Bourdon SA*, ECJ SCJ, March 20 1997.

BRICE COURT
CHAMBERS,
BRUSSELS

Clariant shuffles its management

Clariant, the Swiss chemicals company, may be taking over Hoechst's much bigger specialty chemicals business, but Hoechst's younger executives are going to play a prominent role in what will be the world's biggest specialty chemicals company.

Rolf Schweizer, 66, continues as chairman of Clariant's management board but Karl-Gerhard Seifert, 51, a senior Hoechst executive, takes over from Martin Syz as Clariant's chief executive. Syz, 61, becomes chief operating officer and will be responsible for the integration of the divisions in the new company.

Clariant's old divisional structure has been replaced by six new divisions, four of which will be headed by Hoechst executives. Ulrich Cuntze (cellulose ethers and polymerisates); G  nther Hencken (Masterbatches); Klaus Warming (surfactants); Hartmut Wieser (fine chemicals). From the Clariant side, Peter Brandenburg will head the process and performance products division and Victor Sanahya will run the pigments and additives

division. The heads of the divisions will report to the chief executive.

Roland L  sser, Clariant's chief financial officer, keeps the same job. However, Hanspeter Kn  pfel has been put in charge of business development. Reinhard Handte of Hoechst will head the German Clariant and be responsible for research and development and environmental protection and safety at the group level. Joachim Mahler, another Hoechst executive, will coordinate the regions. *William Hall, Zurich*

World Bank auditor

Brian Smouha, currently a liquidator of the collapsed Bank of Credit and Commerce International, has been appointed lead auditor to the World Bank.

Smouha, 58, will be moving to Washington DC to take up his new post, and will be joining the US firm of Deloitte & Touche although he may remain a partner of the UK firm. Smouha (pictured left) has been involved in several high-pro-



file marathon appointments as an insolvency expert.

Prior to joining Sun in 1993, Schmidt was a member of the research staff at Xerox and held positions at Bell Laboratories and Zilog.

Novell has been searching for a new chief executive since the resignation of Robert Frankenberg, for personal reasons, last August. John Young, former chief executive of Hewlett-Packard and a member of Novell's board, had been acting chairman of Novell on a temporary basis. Young will step down to become vice chairman.

The appointment is seen as a coup for Novell, which has been struggling to regain its momentum for the past year. A long-time leader in the market for computer network operating systems, Novell flourished through a series of acquisitions in the early 1990s that failed to live up to expectations.

Louise Kehoe, San Francisco

JCI's new chairman

Mzi Khumalo, a former detainee who spent 12 years with Nelson Mandela on Robben Island, the notorious jail for political prisoners, has been appointed chairman of JCI, the world's sixth largest

gold producer.

His appointment marks the birth of South Africa's first black-controlled mining house, following the sale in November of Anglo American's controlling stake to the African Mining Group, a consortium of black buyers.

He will be joined on the board by Reuel Khoza, chairman of the African Mining Group, which has agreed to pay R2.9bn for a 37 per cent stake in JCI. No more new directors will be appointed until the consortium, which failed to raise funds for the purchase ahead of the initial February 28 deadline, has paid for the acquisition.

Khumalo was released during the general amnesty for political detainees in 1990, and eschewed the political limelight to concentrate on building Capital Alliance, a black-controlled financial services group.

In contrast to the earlier sale of Anglo's controlling stake in Johnnic, an industrial holding group with an array of minority stakes in blue chip industries, JCI is an operating company. "We are moving into a controlling position", Khumalo said. "I am not interested in passive investments." *Mark Ashurst, Johannesburg*

ON THE MOVE

■ SALOMON BROTHERS

have appointed Justin Kennedy and Michael Yeatts, both as vice-president, Asia Pacific equity trading. Both have joined from Wheelock NatWest Securities Hong Kong where they were directors of equity trading.

■ Nick Salmon rejoins GEC ALSTHOM on June 1, as managing director of the power generation division, succeeding Kevin Bray.

Salmon, chief executive of Babcock International Group in the UK, will be a member of the executive committee.

■ ALUMAX INC has promoted Robert Wolf, vice-president and general counsel to senior vice-president and general counsel.

■ Paul Morris has joined SCHRODER CAPITAL MANAGEMENT as head of US equities. Sharon Haugh becomes chairman of Schroder Capital Management Inc. She takes over from David Salisbury who will remain on the SCM board.

■ NIKKO EUROPE, the European investment banking arm of Nikko Securities, has appointed

Bill Tweddle as managing director of fixed income sales.

Nikko Europe has also established an analytical finance group within the fixed income division and appointed Tristan Williams and Kamib Deljouie as directors to develop it.

■ ZURICH INSURANCE GROUP has realigned responsibilities at the level of the corporate executive board. Steven Gluckstein has been appointed to the board and Detlef Steiner, formerly responsible for reinsurance and alternative risk financing, takes over responsibility for the new corporate customers division.

■ A C NIELSEN has announced a reorganisation of its Asia Pacific region and appointed a new leadership team. Asia Pacific chairman K. N. Tang will oversee the area of strategic business units.

■ Pehr Gyllenhammar is to join the supervisory board of POLYGRAM subject to formal approval by Polygram's shareholders at the company's next annual general meeting. He succeeds Frederick Hulton who is standing down at the end of his four year term.

■ GUANGDONG DEVELOPMENT FUND

have appointed Kang Dian and Christopher Rose as non-executive directors of the company. Cai Jinghua and John Richardson have resigned as non-executive directors.

■ Dutch Bank ABN AMRO has appointed Nancy Fox as divisional director of securitisation within the bank's Australian operation.

Col McKeth becomes head of treasury in Australia, replacing Peter Nichols who has left the bank.

■ RAYCHEM CORPORATION, one of the world's leading materials science companies, has appointed Arati Prabhakar as senior vice-president and chief technology officer. Prabhakar has been serving in the Clinton administration as director of the US National Institute of Standards and Technology.

■ ROCKWELL INTERNATIONAL CORP has appointed Dennis Popovic as vice-president and treasurer.

■ ROYAL BANK OF CANADA has appointed Kristin Yeatman as senior manager in multinational banking. Yeatman will be responsible for corporates

and government in Norway and forestry product companies in Europe.

■ UI Spang has been appointed executive vice-president and chief financial officer of SKANDIA INSURANCE, from May 1.

■ LIEBERT EUROPE has appointed Richard Phipps as European president.

■ John Wright has left the post of chief executive at NORTHERN & NATIONAL IRISH BANK, Ireland which he has held since 1993, to head the Gulf Bank, Kuwait.

■ Peter Eschenbach has joined INTERACCIONES GLOBAL to head the company's London office and cover institutional clients in the UK and Europe.

■ HFS Inc has appointed Craig Henshell, as chairman and chief executive of Long Island, NY-based Avis, the world's second largest rental car system, effective immediately.

■ CREDIT SUISSE FIRST BOSTON has appointed Alan Smith as managing director and vice chairman of the company's Pacific region.

Smith, to be based in Hong Kong, will act as a senior banker for major regional corporate and government entities.

■ Colin Campbell has been appointed general manager for wholesale banking at NATIONAL AUSTRALIA BANK, subsidiary Bank of New Zealand.

■ AMERICAN RE, a unit of Germany-based Munich Re Group, said that Paul Inderbitzin has resigned as chairman, president and chief executive to pursue personal business interests.

Inderbitzin has been succeeded as president and chief executive by Edward Noonan, president of American Re-Insurance's domestic insurance company operations since 1994.

■ Andronic Lukic Craig becomes the new president of BANCO SANTIAGO, taking over from Julio Barriga, who has resigned. The changes in the management of Banco Santiago, the result of the January merger of Banco O'Higgins and Banco de Santiago, had been expected.

■ Ricki Helfer, chairwoman of the FEDERAL DEPOSIT INSURANCE CORP, is resigning as head of the bank and savings institution regulatory agency with effect from June 1.

■ Ole Lund is resigning at the end of March as president and chief

operating officer of GN DANAVOX, Denmark, but will remain available to the company in the subsequent period. J  rn Kildegaard, GN Great Nordic, has been appointed as acting president and chief operating officer for GN Danavox until a successor to Lund has been appointed.

■ Benny Wong Pui-tong has resigned from the board of SWIRE PACIFIC and has been replaced by Davy Ho Ching-ying.

■ Larry McCurdy has been appointed president, chief executive and a director of ECHLIN INC.

■ Prime Minister Kamal Ganzouri has appointed ex-banker Abdelghani Gamle as chairman of the Egyptian stock exchange. He replaces Nasser Nazmi Girgis, a veteran broker who was elected by fellow brokers in 1995.

International appointments

Please fax information on new appointments and retirements to +44 171 573 3928, marked for International People. Set fax to "fine".

CURRENCIES AND MONEY

Dollar steady in quiet trade

MARKETS REPORT
By Emilio Terrazano

The dollar closed marginally higher after a quiet session as traders remained cautious ahead of today's US Federal Open Market Committee meeting.

The US currency rose 0.4 pence against the D-Mark to DM1.688 and Y0.385 against the yen to Y122.82. Traders waited for the FOMC meeting at which the US Federal Reserve is expected to raise interest rates.

The consensus is that the Fed will increase rates by 25 basis points, although some analysts pointed out there is a small risk that rates may remain unchanged, or raised by 50 basis points instead. Since a 25 basis point increase has been discounted into the dollar, anything different could come as a nasty shock. Leaving interest rates unchanged may especially be negative for sentiment.

Mr Michael Burton, head of foreign exchange sales at Goldman Sachs in London, said: "There is a danger of not giving the market the medicine it needs," he added.

Sterling gained ground supported by strong economic data and a weaker D-Mark. The pound gained 2.2 pence against the D-Mark closing at DM2.727 after hitting the highest level in two weeks in earlier trading.

GDP growth for the fourth quarter were in line with forecasts, but followed a state of stronger-than-expected economic figures last week, fuelling perceptions of a rise in UK interest rates after the general election on

May 1. While electoral uncertainty is expected to keep some investors from taking large positions, the pound has priced in a clear Labour victory, said traders.

With the economy showing signs of continued growth, a new Labour victory is likely to raise interest rates before the summer recess. One risk, however, would be a hung parliament, said Mr Steve Hamrah, head of research at IBJ International in London. "It would be disaster for the markets since it would muddy the waters," he said.

Rumbles over the European monetary union continued to affect sentiment. Mr Theo Waigel, the German finance minister, became the most recent to cause jitters over the union, as he commented that welfare cuts and even tax hikes were the price of Germany joining the Euro highlighted the rift between him and Chancellor

Helmut Kohl. Attempts by the Italian government to introduce a fiscal package by the end of this week to bring the country in line with the

Emu convergence criteria is expected to cause volatility this week. "Emu will be the focus of the market until the Amsterdam summit in June," said Mr Michael Burke, senior economist at Citibank.

The Swiss franc closed almost unchanged ending at Sfr 0.832 against the D-Mark. The currency had recently gained ground on hopes that it would be a "safe haven" amid Emu jitters, but was hit late last week by comments by Mr Bruno Gehrig, board member of the Swiss National Bank, that monetary policy would be eased further in the event of franc strength.

Mr Gehrig noted weak domestic lending, adding that unlimited intervention would be applied as last resort in order to prevent the Swiss franc from rising, and some traders fear that the currency may be close to

the top of SNB's target range against the D-Mark.

Fears of a further rise in the consumption tax hit the Tokyo stock market, dragging down the yen. While the Japanese currency regained some ground, analysts expect the yen to weaken following the start of the new fiscal year next month due to the outflow of capital.

Seven of the 10 riskiest currencies are in Eastern Europe and the former Soviet Union, says the DRI/McGraw-Hill's Global Risk Service. Unsurprisingly, its latest Country Risk Review ranks the Albanian lek as the world's riskiest currency followed by the Zairean zair and the Syrian pound. The probability that the top ten riskiest currencies may succumb to a currency depreciation during the next 12 months range from 75 per cent to 45 per cent.

Helmut Kohl. Attempts by the Italian government to introduce a fiscal package by the end of this week to bring the country in line with the

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the top of SNB's target range against the D-Mark.

WORLD INTEREST RATES

MONEY RATES	Over night	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	8.00	2.50
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	4.50	2.50
Germany	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	4.50	2.50
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	8.25	6.75
Netherlands	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.00	2.50
Switzerland	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	1.00	1.00
US	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	6.00	5.00
Japan	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	0.50	0.50

5 LIBOR FT London Interbank Rate

US Dollar CDS

ECU Linked De

5 LIBOR Interbank Rate

reference banks at 11am each working day. The banks are Bankers Trust, Bank of Tokyo, Citibank, Deutsche Bank, and National Westminster.

Rate rates are shown for the domestic Money Rates, US CDS, ECU & SDR Linked Deposits (D).

EURO CURRENCY INTEREST RATES

Mar 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Dutch Guilder	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
French Franc	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Portuguese Esc	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Spanish Peseta	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Swiss Franc	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
US Dollar	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Japanese Yen	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Asian SDR	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2

Short term rates are call for the US Dollar and Yen, where two day rates.

THREE MONTH EURO CURRENCY FUTURES (LFFE) DM100m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	96.57	96.57	+0.01	96.59	96.56	20,006	22,356
Sep	96.58	96.58	+0.01	96.60	96.56	9602	10,294
Dec	96.59	96.59	+0.01	96.61	96.56	10,332	10,332
Mar	96.60	96.60	+0.01	96.61	96.57	9385	14,373

ONE MONTH EURO CURRENCY FUTURES (LFFE) DM100m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	96.74	96.74	+0.01	96.74	96.74	37	513
Sep	96.73	96.73	+0.01	96.73	96.73	0	4083
Dec	96.73	96.73	+0.01	96.73	96.73	0	0
Mar	96.72	96.72	+0.01	96.73	96.73	0	0

THREE MONTH EURO CURRENCY FUTURES (LFFE) L1000m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	92.80	92.80	-0.11	92.82	92.65	25,611	11,549
Sep	92.98	92.98	-0.10	93.02	92.84	14,431	5,880
Dec	93.18	93.18	-0.09	93.18	93.02	5,493	3,410
Mar	93.08	93.08	-0.08	93.20	93.02	1,758	2,516

THREE MONTH EURO CURRENCY FUTURES (LFFE) Sfr100m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	98.11	98.11	+0.02	98.14	98.10	2,577	4,430
Sep	98.07	98.07	+0.02	98.10	98.07	1,587	2,135
Dec	97.94	97.94	+0.02	97.96	97.94	1,474	1,484
Mar	97.80	97.81	+0.02	97.81	97.79	206	873

THREE MONTH EURO CURRENCY FUTURES (LFFE) Y100m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	99.25	99.27	-0.01	99.25	99.25	5	n/a
Sep	99.11	99.11	-0.01	99.11	99.11	0	0
Dec	98.94	98.93	-0.01	98.94	98.94	2	n/a

THREE MONTH EURO CURRENCY FUTURES (LFFE) Ecu10m points of 100%

Mar 24	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	95.69	95.68	+0.01	95.70	95.67	734	1,048
Sep	95.64	95.61	-0.01	95.64	95.61	362	519
Dec	95.54	95.51	-0.01	95.54	95.50	80	498
Mar	95.38	95.37	+0.01	95.38	95.35	75	367

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COMMODITIES AND AGRICULTURE

Robusta coffee futures fall 7.4%

MARKETS REPORT

By Alison Maitland, Kenneth Gooding and Robert Corzine

Robusta coffee futures fell 7.4 per cent in London after prices opened below a key chart point, sparking widespread selling by traders, funds and producers.

The May second position closed \$123 down at \$1,540 in sizeable volume. New York, which has risen faster this year and has already fallen significantly from its March

5 peak, was off by just under 1 per cent in afternoon trading.

Mr Lawrence Eagles, analyst with brokers GNI, said the fundamental reason behind the decline in prices this month was the expectation of lower second-quarter consumption coupled with domestic stockpiling.

The London market has dropped nearly 16 per cent since its March 11 peak of \$1,825. "This is confirmation that the bull market rally in robusta has ended for the time being," said Mr Eagles.

Oil weakened as plentiful supplies of physical oil in northern Europe continued to exert downward pressure. Brent Blend for May delivery, the international benchmark, was quoted at around \$19.75 in late trading on London's International Petroleum Exchange, 24 cents below Friday's close.

The markets shrugged off news from Nigeria that the local subsidiary of Royal Dutch/Shell, the Anglo-Dutch oil group, had shut in 100,000 barrels a day of production in the western part of Rivers state

because local residents had occupied six production stations and detained 127 workers. Oil exports from Nigeria have not been reduced, said Shell.

Gold fell below \$350 a troy ounce in London but quickly rebounded. Traders said the market was too nervous to try a break in either direction ahead of the expiry of European over-the-counter precious metals options today. Gold's price was "fixed" in London yesterday afternoon at \$350.20 an ounce, \$2.60 below Friday afternoon's fix.

One Zurich trader suggested the price would hover near that level until the options expired - and was then likely to drift to a lower range of \$345 to \$347 an ounce.

Options differed on whether an increase in US interest rates - widely expected today - would be bullish or bearish for gold. The bulls said a rise would hit the stock market and put upward pressure on gold prices; the bears suggested higher rates would dampen inflationary pressures and exert downward pressure on gold.

Pepper exchange goes global

Cochin's pepper futures market currently has no dealing room. Traders gather in the front corridor of the India Pepper and Spice Trade Association headquarters. Its three-storey building sits a small lane in the south Indian port's historic Jewtown, one lined with antique shops and the other with browsing tourists and suffused with the scent of turmeric, ginger and pepper from street-side warehouses.

A chorus of yells occasionally bursts from the corridor, where a dozen traders in short-sleeved shirts and flip-flops huddle outside the brokers' spartan offices.

At one end of the corridor, a lone computer screen displays the latest trading prices of the exchange's three-month pepper contracts. It is among the 40-year-old exchange's few technological concessions - unlike the wooden box beneath the computer screen, where pink trade slips must be stuffed by hand into a small slot.

But change is nigh. In an empty, cool-grey and air-conditioned room upstairs, 23 trim open-plan booths line a pristine new dealing room. At the back, a computer room is set up for the delivery of two servers and six workstations. Delivery is due any week now, says Mr P. Sethuram, secretary of the pepper and spice association.

Then Cochin will be set to go global. By April, says Mr Sethuram, it will become India's first international commodities exchange.

Cochin's elevation to international status has been four years in the making. In 1988 - during a slump in pepper prices - the five producer nations comprising the International Pepper Community (IPC) decided to examine ways of offering a global hedging mechanism for pepper, the world's most traded spice.

A study was commissioned and last autumn Cochin, which has offered futures contracts for local farmers and exporters since 1957, was permitted to go global. "It would have proved awkward to start an exchange somewhere else in the world when one already exists," explains Mr Sethuram.

India produces about half the world's annual 180,000 tonnes of pepper. It exported 35,636 tonnes in the 1994-95 financial year, the last for which complete records are available, worth \$62m to India's export earnings. This year's good harvest promises exports of up to 38,000 tonnes. Prices are also firm, with May delivery contracts hovering last month at Rs11,400 a tonne. Last year Cochin turned over around Rs10bn (\$200m).

The buyers for pepper, which accounts for about a

third of the world's \$2bn a year spice trade, are mostly food processors, meat packers and condiment makers. The exchange offers eight three-month contracts a year, two or three listed simultaneously and each for 2.5m tonnes of pepper. This format has been agreed by the International Pepper Community (IPC) as the basis for the global exchange. Only about 2 per cent of trades are currently settled by physical delivery.

Mr Sethuram says internationalisation will make only a gradual difference. "I don't expect we'll see more than 10 or a dozen new members in the early days," he says. Most big India pepper buyers - companies such as McCormack of the US, Burns Philp of Australia and Man Production of the Netherlands - already have agents in Cochin.

"They're all familiar with this market, they'll be comfortable with us," he says. To date the exchange has 160 members and 32 brokers, of whom only about 18 are active dealers.

Mr Sethuram expects a 50 per cent rise in turnover in the first six months. "In the next three years, once it picks up and confidence is established, it will be seen as a market of integrity, then I think we'll see three to four times the present volume."

Cochin will be linked with a trading floor in Kuala Lumpur that will handle much of the Indo-Chinese pepper trading and with which Cochin will have a mutual offset arrangement. The IPC is setting up designated warehouses in each of its members countries and in Singapore.

The first phase of Cochin's upgrade will cost Rs60,000, mainly the price of new computer equipment, and has been self-financed. "We have appointed the dealing room at first on rather a modest scale," Mr Sethuram says. "The exchange will provide only the shell, the rest - telephones and computer screens - the brokers will have to provide themselves."

Phase two, which envisages on-screen trading, is expected to take three or more years and will require funding from donor agencies. And eventually the exchange may have to move out of its three-storey building in Cochin's Fort district, where no building is taller than the coconut palms.

Such success might gently revive Cochin's lost, but illustrious, pre-eminence as a spice trading centre, but decamping from Jewtown would also lose it the unique charm of being the world's only futures market as temptingly aromatic as the substance it trades.

Mark Nicholson Traders gather outside Cochin's pepper futures market



COMMODITIES NEWS DIGEST

Zaire rebels offer gold concessions

Zaire rebels are already offering gold mining concessions in parts of the country they control to foreign companies, an investment analyst said yesterday. Most of the country's gold mines, which are in the east of the country, were seized in January by rebel leader Mr Laurent Kabila's Alliance of Democratic Forces.

The rebels have also taken over the personal gold mine of Mr Mobutu Sese Seko, the Zaire leader, and said earlier this month the gold mines they hold had resumed production and could help pay for their war effort.

Mr John Flemming, a Johannesburg-based investment analyst, said the rebels were now offering gold prospecting concessions. "The rebels are already offering [gold] concessions and they only liberated these places a week or two ago - you can see it is pretty open for business already," he said.

The rebels say their forces are 300km from Zaire's second city, Lubumbashi, the capital of the southern mining province of Shaba. They have taken over almost a fifth of the sprawling central African country - which mining analysts say is one of the richest mineral areas in the world - since they took up arms in October.

The rebels have said that Lubumbashi, the centre of Zaire's copper and cobalt mining industry and the base of the giant state mining company Gécamines, will be their next target.

China aluminium data doubted

A campaign to persuade the International Primary Aluminium Institute to reverse its recent decision to include data from China in its monthly statistical reports has been started by Mr Angus Macmillan, research manager at Hilltop Metals, a subsidiary of Gecor, the South African mining and metals group.

"You have contaminated a sound data series, relied upon for consistency by many people, by including data the veracity of which is questioned," Mr Macmillan suggests in an open letter to the institute, an organisation funded by international aluminium producers.

The institute included statistics from China and Tajikistan for the first time this year, saying its data now covered about 95 per cent of global aluminium production. However, Mr Macmillan, who claims the support of several other metal market commentators, says he does not believe the Chinese are in a position to collect or collate consistent and timely statistics because so much of the country's aluminium production comes from very small plants.

Mr Alan Payne, director general, said the institute was giving Mr Macmillan's letter careful consideration. The institute's main concern was to improve the statistics it provided.

Queensland cyclone assessed

Farmers along the north Queensland coast, one of Australia's key agricultural regions, are assessing the damage caused by Cyclone Justin, which swept inland on Sunday, killing two people and causing widespread flooding. About 30 per cent of Australia's A11.5m sugar crop - grown predominantly in Queensland - was estimated to be in the cyclone's path. Nikki Tait, Sydney

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Announcements Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

Close 1826.5-7.5 1829.00
Previous 1823.24 1829.00
High/Low 1824.00 1829.00
AM Official 1821.15 1828.5-4.0
Kerb close 1559.7
Open Int. 268.222
Total daily turnover 62.322

ALUMINIUM ALLOY (% per tonne)

Close 1519.25 1545.50
Previous 1530.35 1539.50
High/Low 1520.00 1550.00
AM Official 1520.30 1550.55
Kerb close 1545.50
Open Int. 5.825
Total daily turnover 463

LEAD (% per tonne)

Close 833.5-4.5 833.4
Previous 832.93 832.93
High/Low 832.93 832.93
AM Official 833.5-0 833.4
Kerb close 832.93
Open Int. 37.921
Total daily turnover 4.282

NICKEL (% per tonne)

Close 7745-65 7890-65
Previous 7835-45 7945-55
High/Low 7800.770 7950.780
AM Official 7810-15 7910-15
Kerb close 7815-20
Open Int. 50.183
Total daily turnover 8.305

TIN (% per tonne)

Close 5815-25 5895-70
Previous 5825-30 5925-30
High/Low 5880 5940/5870
AM Official 5870-80 5895-90
Kerb close 5860-70
Open Int. 18.144
Total daily turnover 2.358

ZINC, special high grade (% per tonne)

Close 1272-3 1295-5.5
Previous 1278-79 1301-02
High/Low 1270-1 1292-4
AM Official 1270-1 1292-4
Kerb close 1270-1
Open Int. 65.748
Total daily turnover 13.013

COPPER, grade A (% per tonne)

Close 2420-23 2435-6
Previous 2417-20 2435-6
High/Low 2420 2435/2422
AM Official 2420.5-10 2435-6
Kerb close 2420.5-10
Open Int. 157.191
Total daily turnover 30.735

LME AM Official 2 1/2 rate: 1.8105

Day's High 25170-322.00
Previous close 25150-322.00
Spot 1570 3 mths 1574 6 mths 1572 9 mths 1584

HIGH GRADE COPPER (COMEX)

Sett. Day's price change High Low Vol. Int. Open

Mar 117.40 -0.85 118.00 117.00 84 3.529
Apr 112.20 -1.10 113.00 112.00 28 4.238
May 118.05 -1.15 119.00 118.00 8,148 24,472
Jun 108.05 -1.05 110.00 108.00 77 1,088
Jul 107.80 -0.75 108.20 107.80 1,977 8,889
Aug 106.00 -0.55 106.55 106.00 154 688
Total 12,130 57,127

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) \$ price £ equiv SFR equiv

Close 320.25-320.75 27.20 27.20
Opening 321.20-321.50 27.27 27.27
Morning fix 320.85 27.17 27.17
Afternoon fix 320.20 27.12 27.12
Day's High 321.70-322.00 27.27 27.27
Low 320.00 27.00 27.00
Previous close 321.50-322.00

London Silver Gold Standard Rate (% US\$)

1 month 4.33 6 months 4.33
2 months 4.33 12 months 4.33
3 months 4.33

Silver Fix 4.33 6 mths 4.33

Spot 316.00 512.50

3 months 323.00 518.00

6 months 328.00 526.10

1 year 337.00 538.65

Gold Coins 5 price £ equiv.

Kruggerand n/a n/a

Maple Leaf n/a n/a

New Sovereign n/a n/a

Precious Metals continued

GOLD COMEX (100 Troy oz. \$/troy oz.)

Sett. Day's price change High Low Vol. Int. Open

Mar 360.4 -2.5 - 5 3
Apr 350.4 -2.5 353.3 349.4 35,533 43,672
May 350.4 -2.5 353.3 349.4 1,221 43,215
Jun 350.4 -2.5 353.3 349.4 1,078 10,788
Jul 350.4 -2.5 353.3 349.4 387 5,845
Aug 350.4 -2.5 353.3 349.4 2,408 21,634
Sep 350.4 -2.5 353.3 349.4 2,408 21,634
Total 62,226 167,284

PLATINUM NYMEX (50 Troy oz. \$/troy oz.)

Sett. Day's price change High Low Vol. Int. Open

Mar 378.5 -3.5 380.0 377.5 2,112 12,428
Apr 380.0 -3.5 381.5 378.5 877 4,895
May 380.0 -3.5 381.5 378.5 877 4,895
Jun 380.0 -3.5 381.5 378.5 877 4,895
Jul 380.0 -3.5 381.5 378.5 877 4,895
Aug 380.0 -3.5 381.5 378.5 877 4,895
Sep 380.0 -3.5 381.5 378.5 877 4,895
Total 1,010 14,008

PALLADIUM NYMEX (100 Troy oz. \$/troy oz.)

Sett. Day's price change High Low Vol. Int. Open

Mar 147.25 -5.05 148.25 146.25 8 16
Apr 146.25 -5.05 148.25 146.25 8 16
May 146.25 -5.05 148.25 146.25 8 16
Jun 146.25 -5.05 148.25 146.25 8 16
Jul 146.25 -5.05 148.25 146.25 8 16
Aug 146.25 -5.05 148.25 146.25 8 16
Sep 146.25 -5.05 148.25 146.25 8 16
Total 1,010 14,008

SILVER COMEX (5,000 Troy oz. \$/troy oz.)

Sett. Day's price change High Low Vol. Int. Open

Mar 517.1 -3.3 518.0 516.0 115 284
Apr 517.1 -3.3 518.0 516.0 115 284
May 517.1 -3.3 518.0 516.0 115 284
Jun 517.1 -3.3 518.0 516.0 115 284
Jul 517.1 -3.3 518.0 516.0 115 284
Aug 517.1 -3.3 518.0 516.0 115 284
Sep 517.1 -3.3 518.0 516.0 115 284
Total 1,172 18,211

ENERGY

CRUDE OIL NYMEX (1,000 barrels, \$/barrel)

Sett. Day's price change High Low Vol. Int. Open

Mar 21.21 -0.30 21.51 21.18 40,982 66,463
Apr 21.18 -0.22 21.48 21.13 11,043 27,216
May 21.08 -0.16 21.21 21.07 3,215 27,240
Jun 20.85 -0.15 21.08 20.82 2,735 19,358
Jul 20.90 -0.08 21.08 20.88 1,203 13,624
Aug 20.79 -0.11 20.87 20.79 591 15,405
Total 78,788 282,260

CRUDE OIL IPE (\$/barrel)

Sett. Day's price change High Low Vol. Int. Open

Mar 18.74 -0.25 18.92 18.68 31,223 67,288
Apr 18.74 -0.25 18.92 18.68 31,223 67,288
May 18.74 -0.25 18.92 18.68 31,223 67,288
Jun 18.74 -0.25 18.92 18.68 31,223 67,288
Jul 18.74 -0.25 18.92 18.68 31,223 67,288
Aug 18.74 -0.25 18.92 18.68 31,223 67,288
Sep 18.74 -0.25 18.92 18.68 31,223 67,288
Total 18,788 18,788

HEATING OIL NYMEX (42,000 US gals., \$/US gal.)

Sett. Day's price change High Low Vol. Int. Open

Mar 55.85 -0.13 56.05 55.75 11,895 23,712
Apr 55.85 -0.13 56.05 55.75 11,895 23,712
May 55.85 -0.13 56.05 55.75 11,895 23,712
Jun 55.85 -0.13 56.05 55.75 11,895 23,712
Jul 55.85 -0.13 56.05 55.75 11,895 23,712
Aug 55.85 -0.13 56.05 55.75 11,895 23,712
Sep 55.85 -0.13 56.05 55.75 11,895 23,712
Total 11,895 23,712

GAS OIL IPE (\$/barrel)

Sett. Day's price change High Low Vol. Int. Open

Mar 17.75 -0.10 17.85 17.65 1,895 18,925
Apr 17.75 -0.10 17.85 17.65 1,895 18,925
May 17.75 -0.10 17.85 17.65 1,895 18,925
Jun 17.75 -0.10 17.85 17.65 1,895 18,925
Jul 17.75 -0.10 17.85 17.65 1,895 18,925
Aug 17.75 -0.10 17.85 17.65 1,895 18,925
Sep 17.75 -0.10 17.85 17.65 1,895 18,925
Total 1,895 18,925

NATURAL GAS NYMEX (10,000 cu ft., \$/cu ft.)

Sett. Day's price change High Low Vol. Int. Open

Mar 65.50 -1.14 67.40 65.50 14,915 20,834
Apr 65.50 -1.14 67.40 65.50 14,915 20,834
May 65.50 -1.14 67.40 65.50 14,915 20,834
Jun 65.50 -1.14 67.40 65.50 14,915 20,834
Jul 65.50 -1.14 67.40 65.50 14,915 20,834
Aug 65.50 -1.14 67.40 65.50 14,915 20,834
Sep 65.50 -1.14 67.40 65.50 14,915 20,834
Total 14,915 20,834

UNLEADED GASOLINE NYMEX (42,000 US gals., \$/US gal.)

Sett. Day's price change High Low Vol. Int. Open

Mar 65.50 -1.14 67.40 65.50 14,915 20,834
Apr 65.50 -1.14 67.40 65.50 14,915 20,834
May 65.50 -1.14 67.40 65.50 14,915 20,834
Jun 65.50 -1.14 67.40 65.50 14,915 20,834
Jul 65.50 -1.14 67.40 65.50 14,915 20,834
Aug 65.50 -1.14 67.40 65.50 14,915 20,834
Sep 65.50 -1.14 67.40 65.50 14,915 20,834
Total 14,915 20,834

GRAINS AND OIL SEEDS

WHEAT LFE (\$/cwt)

Sett. Day's price change High Low Vol. Int. Open

Mar 102.20 -0.45 102.60 101.30 257 3,073
Apr 104.40 -0.40 105.00 103.50 292 1,071
May 98.00 -0.75 98.50 97.00 - 35
Jun 98.00 -0.75 98.50 97.00 180 21,000
Jul 102.00 -0.75 102.50 100.50 35 350
Aug 102.00 -0.75 102.50 100.50 10 10
Total 782 1,721

WHEAT CBT (50,000 mc, cents/50b bush)

Sett. Day's price change High Low Vol. Int. Open

Mar 388.50 -3.5 390.00 385.00 5,052 27,530
Apr 388.50 -3.5 390.00 385.00 5,052 27,530
May 388.50 -3.5 390.00 385.00 5,052 27,530
Jun 388.50 -3.5 390.00 385.00 5,052 27,530
Jul 388.50 -3.5 390.00 385.00 5,052 27,530
Aug 388.50 -3.5 390.00 385.00 5,052 27,530
Sep 388.50 -3.5 390.00 385.00 5,052 27,530
Total 17,587 78,888

MAIZE CBT (5,000 bu mc, cents/50b bush)

Sett. Day's price change High Low Vol. Int. Open

Mar 299.00 -1.25 299.75 297.50 28,584 154,586
Apr 300.00 -1.25 300.75 297.50 15,374 110,461
May 299.25 -0.5 299.75 298.75 1,987 17,987
Jun 299.25 -0.5 299.75 298.75 1,987 17,987
Jul 299.25 -0.5 299.75 298.75 1,987 17,987
Aug 299.25 -0.5 299.75 2

6.0524	-	-
6.3340	-	-
7.0911	-	-
6.0653	-	-
5.5670	-	-
1.5053	-	-
1.2580	-	-
3.2465	-	-
ers (January) Ltd	-	-
23.77	1.13	-
10.74 -0.7180	-	-
11.04	-	-
11.71 -0.6790	-	-
16.0778	-	-
10.3281	-	-
13.4864	-	-
Insured	-	-
(January) Ltd	-	-
11.78 -0.40	-	-
10.19	-0.09	-
007.0	-4.1	-
541.7	-0.8	-
ers (January) Ltd	-	-
002.9	-	-
ny Ltd	-	-
04.08	0.85	-
10.25	-	-
84.43	-	-
11.34	4.80	-
Residence	-	-

Ask Notes	Selling	Buying	+ or -	Yield		Selling	Buying	+ or -
Change	Price	Price		%		Price	Price	

Vertical Pull Up	45	54.00	-0.00	Ann Equity PTOA	34007.140000
Vertical Pull Up	4	55.00	0.00	Ann Equity Add	5000.000000

Figure 6

FT MANAGED FUNDS SERVICE

(SIB RECOGNISED)

[illegible]

European Multinational Profit	Eq. 7.39	-0.07
European Multinational Profit	Eq. 7.40	-0.06

General Salaries	1,240.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00	1,211.00
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Swiss Franc Bonds Div.	9-10.12	-
Swiss Franc Bonds Cap.	9-10.06	4.03

[illegible]

Market Equity	111,321,333	40.589	—
Debt	2,000,000	0.732	0.000
Debt to Equity	DN32.904	40.572	0.112
Debt to Capital	2,000,000	1.000	0.000

[illegible]

Global Vantage	1.4000	1.1000	-	7.14
Global Managed	2.5357	2.7975	+0.01	-
Global	2.1000	2.2000	+0.01	-

[illegible]

Digitizer World: Eq Cap Mkt 19...	NR10777 50	-542.03	-
Diff Int'l European Equity Cap	NR12394 84	-300.25	-

[illegible]

Japan Kraft Co. _____	¥152.5	+4.2	—
Kumho _____	\$2.55	-0.18	—

1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367
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INSURANCE

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0001	0.1250
0002	0.2500
0003	0.3750
0004	0.5000
0005	0.6250
0006	0.7500
0007	0.8750
0008	1.0000
0009	1.1250
0010	1.2500
0011	1.3750
0012	1.5000
0013	1.6250
0014	1.7500
0015	1.8750
0016	2.0000
0017	2.1250
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Guaranteed Money Saving
Guaranteed Money Return.

Budget Band Scoring _____
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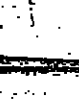
Chadron Energy	201.5
South East Asian	21.2
Commodity Funds	22.7

US Bond	\$9.5
Japan Bond	\$9.5

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3M Irish Equity	200.8
3M Irish American Equity	94.0

31 October 2004



Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

**HER OFFSHORE
NDs**

Bidder	Price	Bidder	Price	+ or -
Management Ltd				
Long Term Supply				
20				

243.20

LONDON STOCK EXCHANGE

Equities retreat for sixth straight session

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

London's equity market was given another pasting yesterday, absorbing its sixth consecutive decline as fund managers and marketmakers ran for cover ahead of today's meeting of the US Federal Reserve's Open Market Committee, which decides monetary policy.

The consensus around the City's dealing rooms favoured a rate rise of 25 basis points. Some of the market's doomsters feared such a move might, if followed by further increases, trigger a repeat

of the February 1994 retreat by global bond and equity markets. Marketmakers said a rise in excess of 25 basis points would cause problems for Wall Street while no change would be seen as merely a postponement of the bad news.

The FTSE 100 ended the session exactly 40 points off at 4,214.8, extending the fall over the six trading days to 208.5, or 4.7 per cent. The FTSE 250 dropped a further 28.1, a decline of 170.9 or 3.6 per cent over the six days, while the SmallCap index, down 8.6 yesterday at 2,312.1, was 53.1 or 2.3 per cent lower over the same period.

Dealers said many fund manag-

ers were attempting to lock in profits and secure the value of their portfolios as the quarter and the financial year drew to a close.

Turnover yesterday was up to recent levels, reaching 805.5m by the 6pm cut-off point.

Equities drew no real comfort from the gilt market which, along with international bonds, staged a useful rally during the afternoon, shifting into positive ground towards the close.

Earlier, gilts had deteriorated despite excellent news on the domestic economy. Fourth quarter gross domestic product was revised to show a 2.6 per cent increase for 1996 while an 87.3m

current account surplus left the 1996 deficit at a mere 51.4m. The gilt market is now preparing for Wednesday's auction of £2.5bn worth of 10-year gilts.

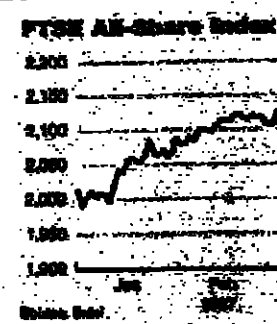
With gilts labouring at the start of the day, equities were unable to build on a positive opening which had seen the FTSE 100 edge around 10 points higher.

BAT, the tobacco group, built strongly on last Friday's rally, chased higher by a number of brokers who said the shares had been oversold.

Many of the financial stocks remained under intense pressure, although traders expect a short term bounce in the sector after

the recent underperformance. Mr David Schwartz, stock market historian and author of *Bull Market Bag Signals*, said there had been 40 occasions since 1935 when the market fell six sessions in a row and by between 3.5 and 5 per cent. On two out of every three occasions these successive falls have occurred in a bear market, which he defines as a fall of 15 per cent or more.

History says the odds are high that this is more than a temporary market correction," Mr Schwartz said, pointing out that the bigger the percentage fall during the six sessions, the higher the odds are on a bear market.

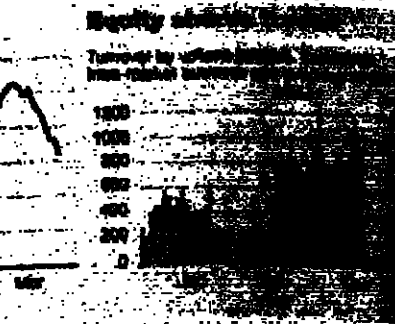


Indices and ratios

FTSE 100	4214.8	-40.0
FTSE 250	2085.0	-28.1
FTSE 350	2085.0	-18.4
FTSE All-Share	2085.0	-17.31
FTSE All-Share yield	3.70	3.67

Best performing sectors

1 Tobacco	+2.5
2 Support Services	+0.5
3 Distributors	+0.5
4 Health Care	+0.3
5 Textiles & Apparel	+0.1



Worst performing sectors

1 Insurance	-2.5
2 Life Assurance	-2.5
3 Alcoholic Beverages	-1.5
4 Pharmaceuticals	-1.5
5 Building & Civil	-1.5

BP back in pole position

By Steve Thompson
and Joel Kibazo

BP regained top spot in the UK's market capitalisation league, projected upwards by further aggressive buying interest from both sides of the Atlantic. Institutions, particularly in New York, were said to be impressed by a series of big presentations given by the company recently in the US. The shares moved up 3 1/4 to 703 1/4.

BP has tied with HSBC and Glaxo for first place in the market cap table for some time. Glaxo's occupation of the number one slot last week lasted only a few days.

Elsewhere in oil's Lasso moved up 4 1/4 to 248 1/4, leaving it in second place in the FTSE 100 performance table, with investors still chasing the stock amid talk of further drilling success in Pakistan.

Shell Transport went into a sharp reverse, closing 2 1/4 lower at £10.56 1/4, hit by suggestions of switching into BP and by continuing concerns about its Nigerian operations. Shell said it was losing output of 100,000 barrels of crude oil a day after the shutdown of six of its flow stations because of a feud between two villages. Burmah Castrol gave a strong performance, clim-

bing 2 1/4 to £10.05 1/4 reflecting a stock shortage and talk of a broker buy recommendation.

Recommendations from several brokers powered tobacco and financial services giant BAT. The shares jumped 15 to 509p, making it the best performing FTSE 100 stock.

Schroders securities was among those said to be behind yesterday's strong advance. The broker was reported to have issued a new 670p-630p valuation on the stock and suggested that the group may be ring-fenced from US legal action and that the bulk of any settlement would be met by its insurers.

BZW, the group's broker, and Goldman Sachs were also said to favour the stock. Turnover reached a hefty 14m. The stock was also actively dealt in the traded options sector where the equivalent of 1.5m was traded.

Shares in Stagecoach, the transport group which owns the problem-ridden South West Trains, came off the rails again yesterday, careering down another 29 1/4 to 649 1/4, after bearish comments in the press.

Stagecoach shares have plummeted 105.5p or 14 per cent since March 11, as the institutions have reacted to a stream of worries about potential regulatory interference. Its South West Trains franchise has been beset by cancellations and delays because of a shortage of drivers. Stagecoach has been threatened with a fine from the possible loss of the

franchise if the services are not restored to an acceptable level.

The shares peaked at 801p in January of this year, but have subsequently fallen sharply. Mr Brian Souter, the company's executive chairman, acquired 10,000 Stagecoach shares yesterday on behalf of his wife, boosting their joint holdings to 36.5m shares.

Reports that broker SEC Warburg had turned neutral on the UK drinks industry weakened several of the leading issues in the sector.

Bass surrendered 8 1/4 to 800 1/4, after trade of 2.1m. Speculation that Bass is about to abandon its proposed brewing merger with Danish group Carlsberg-Tetley continued to do the rounds in the market.

Bass announced plans for the deal last August. However, the UK Department of Trade and Industry subsequently referred the proposal to the Monopolies and Mergers Commission.

Several brokers indicated they would upgrade Bass profit expectations should it decide to relinquish the deal. Mr Philip Hawkins at Merrill Lynch said: "Although we believe Bass has yet to make a decision, we believe it will not hesitate to walk away from the deal should it perceive the undertakings to be too onerous. The overall effect on Bass will be minimal - only £20 to £30m - but the company will have benefited from having access to Carlsberg-Tetley's books and marketing plans for 12 months."

In the rest of the sector, Scottish & Newcastle eased 11 to 654 1/4 while Whitbread fell 1 1/4 to 758 1/4.

Hong Kong-linked banks

performed exceptionally well, with HSBC London registered stock up 17 1/4 to £14.76p and the HK registered 20 1/4 to £12.27p. Standard Chartered moved up 13 1/4 to 833 1/4.

But it was hard going for the rest of the banking sector, which has suffered more from the broader market than recently amid concerns about rising interest rates and bond yields.

The battle for control of Scottish Amicable is expected to reach a climax this week. Abbey National, one of the three bidders for the mutual, along with Prudential and Australian Mutual Provident, and whose shares have been hit hard in recent weeks, settled a shade easier at 714 1/4. Prudential, regarded as favourite to take control of Scottish, retreated 5 1/4 to 540 1/4.

Lloyds TSB, whose shares peaked at 534p on February 19, continued its precipitous fall, sliding 7 to 454p. The stock has fallen in a straight line since last Friday week, giving up 68 1/4 or 1 per cent.

The two Scottish banks also came under fire. Royal Bank of Scotland slipped 12 to 515 1/4 and Bank of Scotland 9 to 313 1/4.

Blue Circle Industries shares drifted back 14 to 401 1/4, after preliminary results a fraction below consensus forecasts and news of the acquisition of St Mary's Cement Corporation of Canada for £164m.

Sentiment in the building materials and construction areas of the market was also unsettled by worries about possible interest rate rises after the general election.

The state of new issues continued apace, with four stocks making their market debuts yesterday, three on the main market and one on AIM. All went to premiums to their respective placing

prices.

Diagonal, the IT consultancy, traded up to 316p, before settling at 310p, a 12 per cent premium to the 275p placing price; turnover in the shares reached a healthy 1.5m by midday.

Shares in Heal's, the furniture retailer, were placed at 175p but closed at 205 1/4 in volume of 1.2m. While Helphire, the car hire and repair company, made a sparkling debut, the shares topping 130p at one point before finishing the session at 125 1/4. Turnover was 2.2m shares.

Prestray Leisure, floated on AIM and placed at 2p, touched 3p before closing at 2.75p, with 4.7m shares changing hands.

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div	Yield	Div	Yield	Div	Yield	Div	Yield
Diagonal	310.00	12.00%	1.50	12.00%	1.50	12.00%	1.50	12.00%	1.50	12.00%
Heal's	175.00	10.00%	1.75	10.00%	1.75	10.00%	1.75	10.00%	1.75	10.00%
Helphire	130.00	10.00%	1.30	10.00%	1.30	10.00%	1.30	10.00%	1.30	10.00%
Prestray Leisure	2.75	10.00%	0.275	10.00%	0.275	10.00%	0.275	10.00%	0.275	10.00%

FT 30 INDEX

and lower	LIFFE Equity options	
38	Total contracts	43,120
67	Calls	17,194
	Puts	25,926

d on the London Share Service.

NEW YORK STOCK EXCHANGE PRICES

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Weak tech sector spills over to Dow

AMERICAS

US share prices were lower at mid-session as another day of sharp losses in the technology sector spilled over into the broader market, writes Lisa Brannen in New York.

Near noon, the technology-rich Nasdaq composite was off 21.05 or 1.7 per cent at 1,233.02 and the Pacific Stock Exchange technology index, which contains Nasdaq and NYSE-listed shares, was 1.9 per cent lower.

The weakness in the technology sector was sparked in part by reports of a delay in the introduction of new software from Microsoft. Shares in the second largest company on the Nasdaq, Microsoft, fell 5.4 per cent to \$89.40, their lowest level since January 20.

Worries about weakness among industry leaders hit Intel, the Nasdaq's largest issue. Shares in the semiconductor giant slid \$4.40 or 3.9 per cent to \$109.50. Other declining technology companies included Cisco Systems, 3.2 per cent lower at \$47.40, and Oracle, which shed 3.4 per cent to \$39.40.

Falls in Hewlett-Packard and IBM contributed to weakness on the Dow Jones Industrial Average, which was off 12.09 or 0.2 per cent at 7,922.70. The Standard & Poor's 500 lost 2.17 at 781.95.

HP shed 3.1 per cent to \$55.40 and IBM was 2.1 per cent lower at \$131.00. The Dow did derive some support from a modest

rebound in Philip Morris, which had slumped in recent sessions after Liggett Group won immunity from anti-tobacco litigation, by agreeing, among other things, to warn on its packs that smoking was addictive.

Philip Morris regained 1.1 per cent of the \$29.40 it had lost since March 12, bringing the share price to \$30.50. RJR Nabisco also regained some ground, rising 0.2 per cent to \$31.40.

Lehman Brothers, the investment bank, managed to gain 0.4 per cent to \$31.10 in spite of the falling market after reporting first quarter results that were well ahead of expectations.

TORONTO was mixed at mid-session as the TSX-300 composite index climbed 18.00 or 0.6 per cent to 3,693.80, but declining tech stocks outweighed those which advanced.

Avenor rose 0.125 to C\$23.80 as the forestry group said it had rejected approaches last week by Domtar about a possible merger, and would focus instead on a merger with Repap Enterprises. Domtar added 5 cents to C\$11.65 and Repap picked up 3 cents to C\$4.45.

Bre-X Minerals added 40 cents to C\$15.80 in heavy trading after news that its management was considering whether to sue publicists that it claimed had cast doubt on the integrity and accuracy of its Bunsang assay results and resource calculations.

Telmex hurts Mexico

MEXICO CITY was lower at mid-session after a single cross trade of 100,000 shares in Telmex, early in the session, weighed on the very slow market. The IPC index was 18.61 lower at 3,791.29 as Telmex eased 20 centavos to 15.60 pesos.

Traders noted that Telmex had fallen sharply last Thursday ahead of the triple-whitching in US markets on Friday. Dealers added that the primary auction of government securities, to be held later in the day, contributed to the cautious tone.

SAO PAULO was weak at mid-session with the market already discounting a 25 basis point rise in US interest rates after today's FOMC meeting and many investors already absent for the Easter holiday. The Bovespa index was 65 down at 9,236.

SANTIAGO edged higher at mid-session after unexpectedly low economic growth in January fuelled hopes of a cut in interest rates. The IPSA index rose 0.44 higher to 113.36.

EUROPE

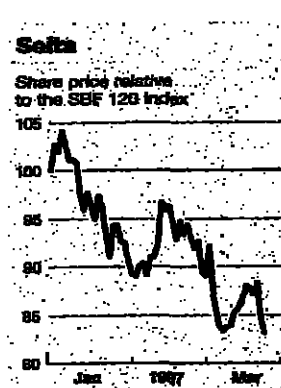
Bourses were hesitant, and mostly sluggish, ahead of today's expected US interest rate decision. Even Frankfurt, which had been buoyed by bond market strength and steel industry speculation, lost most of its gains after the Dow went sour in the US mid-morning.

The Dax index closed 14.05 lower at 3,302.57 after a high of 3,329.47. Turnover came back from DM13.5bn last Thursday, before Friday's inflationary triple witching effect, to just DM9.7bn. Thyssen leading in DM902m.

Steels led the share price charts, too. Krupp came in at DM17.50 or 5.5 per cent higher at DM37 and Thyssen was up DM20 or 5.1 per cent at DM410.50.

Mr Hans-Peter Wodnick, at Credit Lyonnais in Frankfurt, said that Krupp would be the obvious beneficiary if its takeover went ahead; but he questioned whether potential buyers would pay the prices that some analysts were quoting on any sell-off of the merged group's non-core assets.

The day's other big stars were SAP, up DM12.65 to DM275.95 on the hope that



revenue targets would be revised later this week to take in a 34 per cent gain to DM5bn this year, rather than the 25 to 30 per cent previously mooted; and Schering, another DM5.75 higher at DM173.20 on last week's fan letter from the Goldman Sachs pharmaceutical team.

PARIS, too, saw takeover speculation, but light business with turnover at FF4.8bn as the Suez/Lyonnais des Eaux mergers continued to absorb the market. Suez, with cash and unused tax losses, was billed as the potential bidder. Professionals bet that it would

have to pay a premium to effect the merger and its shares fell FF3.10 or 1.1 per cent to FF277.30, while Lyonnais rose FF1.13 or 2.3 per cent to FF574.

Outside the CAC 40 the tobacco group, Seita, continued to lose ground following last week's admission by the Liggett group of the US of the health hazards of smoking. The shares fell another FF6.90 to FF200.90. But Rexel, the electrical equipment retailer, rose sharply following Friday's announcement of three acquisitions, gaining FF68 or 3.4 per cent to FF2,178.

ZURICH was flat, awaiting results from Roche after the market closed as well as today's FOMC meeting. The SMI index closed 6.0 higher at 4,497.2.

In the event, Roche delivered only the briefest of details and its 16 per cent rise in 1996 net profit was in line with forecasts. One analyst noted that the company had also failed to live up to some expectations that it would announce a change in its share structure. At the close, the certificates gave up some of Friday's 3.7 per cent rise to close SF785 weaker at SF712.50.

Nestlé, due to release 1996

FTSE Actuaries Share Indices

Hourly change	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Actuaries 100	2132.84	2132.33	2130.95	2127.77	2128.64	2128.90	2127.82	2128.35
FTSE Actuaries 200	2153.81	2153.59	2153.08	2149.89	2149.89	2149.89	2148.82	2148.82

Mar 21	Mar 22	Mar 23	Mar 24	Mar 25
FTSE Actuaries 100	2130.07	2121.04	2141.03	2148.86
FTSE Actuaries 200	2160.57	2143.85	2172.34	2178.83

Source: Reuters. FTSE Actuaries 100 = 100 shares of the FTSE Actuaries 100 index. FTSE Actuaries 200 = 200 shares of the FTSE Actuaries 200 index.

results tomorrow, edged up SF74 to SF74.571 as forecasts pointed to expectations of a 10 per cent rise in net profit.

Surveillance, the inspection and testing group, gave up another SF770 to SF73,030 on continuing worries over the loss of two large contracts.

MILAN featured a 7.8 per cent surge in Parmalat, the food group, as the market welcomed its acquisition of a majority stake in Canada's Beatrice Foods. Elsewhere, the market was largely weak, awaiting details of the deficit cutting mid budget, due later in the week.

The Comit index rose 0.88 to 730.35 while the real-time MIBtel index gave up 148 to 11,647.

Parmalat rose L172 to L2,340 as investors were reassured that the company had no plans to tap the market to finance its C\$230m

COPENHAGEN seemed to be talking more about the Easter holidays than US interest rate prospects as the KFX index closed 1.15 lower at 152.84. Carlsberg, the brewer, shed DKr4 to DKr398 on fears of delays in the British monopoly authorities' approval of the Bass/Carlsberg/Tesley merger.

However, a markedly better than expected performance from the insurer, Tryg, allowed it to transcend the general mood, with the shares up DKr11 at DKr385 after initially soaring by 8 per cent to DKr372.

TEL AVIV fell 1.5 per cent and blamed political tension after Israeli troops clashed with Palestinians for the fifth consecutive day. The Mahtanim index closed 3.44 lower at 242.30 on very low turnover of Shk72m against Shk126m last Thursday.

VIENNA saw weakness in Flughafen Wien, down 6.2 per cent on one stage and closing Sch94 on 2.5 per cent lower at Sch549 amid rumours that one of the group's two chief executives had resigned. The ATX index eased 0.91 to 1,215.89.

Written and edited by William Cochrane, Michael Morgan and James Mannix.

Tax fears and politics undermine Tokyo, Taipei

ASIA PACIFIC

Tax worries dropped TOKYO by 3.3 per cent, ending its five-day winning streak on late waves of selling, writes Owen Robinson.

In a reversal of trading patterns in the last few months, international blue chips were heavily sold, leading down other sectors of the market. The Nikkei 225 average plunged 889.34, closing at the day's low of 18,043.82 after a morning high of 18,750.25.

Volume rose to an estimated 406m shares from 377m. Stocks opened higher after last week's 225 index gain of more than 700 points, following the government's announcement last week of forthcoming measures to revitalise the moribund real estate market, investors were encouraged further yesterday morning by reports that the package would enable securitisation of land assets held by financial institutions as collateral for massive, non-performing loans.

In the afternoon, however, remarks by the Japanese finance minister, Mr Hiroshi Mitsuoka, suggested that a further increase in sales tax may follow the next week's rise from the current 3 per cent to 5 per cent.

The Topix index of all first-section stocks plunged 18.77 to 1,375.71 and the capital-weighted Nikkei 300 was off 8.89 at 2,64.04. Declines led advances by 788 to 349, with 138 unchanged and, in London, the ISE/Nikkei index gained 7.59 at 1,423.88.

Banks, and some property companies gained early ground on reports of the government's plan to promote securitisation of land assets. However, many fell back later in the day after profit takers moved in on blue-chip issues, triggering sell-offs in a range of sectors.

Sakura Bank fell Y10 to Y775 and Bank of Tokyo-Mitsubishi Y20 to Y2,080. Sumitomo Bank, however, added Y10 to Y1,650. Among realtors Mitsui Fudosan, which rose strongly last week, fell Y50 to Y1,320, and Mitsubishi Estate by Y20 to Y1,420.

Sony led blue chips down, falling Y300 to Y8,300, its first time below Y8,500 since early February. Pioneer Electronic shed Y120 to Y2,040 and Canon Y60 to Y2,510. Toyota Motor fell Y30 to Y3,050 and Honda Y70 to Y3,550.

In Osaka, the OSE average fell 172.96 to 19,127.13 and volume swelled to 386.4m shares.

TAIPEI was shocked by a report that China would mount war games, possibly to protest at a Taiwan visit by Tibet's exiled spiritual leader, the Dalai Lama. The weighted index plunged 287.19 or 3.5 per cent to 7,946.88 in the market's biggest single-session drop since the last round of military tensions with China, when it fell 346.74 on January 5, 1996.

The United Daily News reported that China planned to hold a joint-forces military exercise in April in coastal Fujian, Guangdong and Zhejiang provinces: those nearest to Taiwan.

Sentiment was dampened further by a newspaper report that Morgan Stanley had lowered its suggested

investment portfolio weighing for its investors in Taiwan stocks to 4 per cent from an original 6 per cent.

BANGKOK gained 1.7 per cent in this turnover after foreign investors bought several large-capitalisation banking issues late in the day. The SET index surged 11.75 higher at 713.85 in turnover of Bt1.5bn. However, brokers said an earlier government announcement that the Thai current account deficit was to narrow sharply, to 6.9 per cent of

Sun Hung Kai Properties jumped HK\$3.50 to HK\$95.75 and Henderson Land added HK\$3 to HK\$87.

Hongkong Telecom fell 45 cents to HK\$13.95 after running up 2.9 per cent last week on speculation that a Chinese investor would take a stake in the company.

SINGAPORE picked up 1.8 per cent on bargain-hunting after eight consecutive days of declines.

The Straits Times Industrials Index, which had lost 100 points since March 11, ended 25.92 higher at 2,084.40, largely reflecting renewed optimism over the local property market.

SEOUL was lower on renewed worries about the economic fallout from the Hanbo Steel scandal and a report that the government would go ahead with a plan

to list the state-run Korea Telecom in the first half of this year.

The composite index ended 5.87 lower at 617.26 and, after the market closed, the finance ministry said that it would not press ahead with the Telecom listing unless market conditions improved.

DHAKA came under renewed pressure, tumbling 7 per cent as selling pressure mounted after reports that a government inquiry might implicate big market participants in alleged manipulation of share prices during the bull run in October and November last year.

The all share index lost 85.52 at 1,633.52. The index lost 2.7 per cent on Saturday but trading was suspended on Sunday because of an opposition-led general strike.

MARKETS IN PERSPECTIVE

	% change in local currency				% change in US \$	% change in UK £
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1994	Start of 1995
Austria	-1.27	+1.27	+15.04	+25.07	+2.90	+6.31
Belgium	-4.23	-0.10	+27.17	+30.17	+5.77	+10.31
Denmark	-3.57	-3.26	+39.41	+45.83	+21.77	+25.79
Finland	-4.27	-0.85	+51.16	+58.56	+32.62	+37.00
France	-2.06	+0.92	+30.88	+41.53	+17.90	+21.79
Germany	-1.82	+3.38	+30.03	+42.59	+17.36	+21.24
Ireland	-3.82	-3.88	+25.15	+29.23	+22.73	+26.79
Italy	-1.77	-5.40	+24.18	+22.08	+11.21	+14.98
Netherlands	-3.93	-0.10	+37.59	+48.48	+21.65	+25.67
Norway	-4.24	-5.41	+33.09	+39.67	+27.82	+32.04
Spain	-3.65	-0.21	+42.43	+50.39	+23.56	+27.63
Sweden	-3.93	+0.97	+40.81	+56.86	+31.91	+36.27
Switzerland	-2.99	-0.70	+22.94	+34.54	+3.21	+6.61
UK	-3.72	-1.85	+13.61	+14.72	+14.72	+18.51
EUROPE	-3.14	-0.54	+24.42	+30.77	+15.78	+19.61
Australia	-0.89	-2.99	+6.58	+8.37	+10.84	+14.50
Hong Kong	-1.54	-7.33	+5.19	+17.77	+13.77	+17.58
Japan	+3.24	-1.95	+11.03	+10.75	+27.21	+24.80
Malaysia	-2.81	-5.41	+2.37	+24.77	+23.72	+27.81
New Zealand	-0.59	-3.72	-0.23	-0.08	+2.69	+6.09
Singapore	-3.27	-10.87	+11.48	-3.63	-5.78	-5.78
Canada	-2.08	-2.89	+25.40	+31.48	+25.83	+29.29
USA	-1.20	-2.25	+20.12	+26.70	+22.65	+26.70
Mexico	-0.92	-2.73	+23.20	+34.69	+26.81	+31.00
South Africa	-0.33	-1.41	+5.94	+13.76	-9.34	-6.34
WORLD INDEX	-1.11	-1.94	+13.60	+18.80	+8.17	+11.75

† Based on March 21 1997. © Copyright, FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved.

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NATIONAL AND REGIONAL MARKETS												
— DOLLAR INDEX —												
FRIDAY MARCH 21 1997												
US Dollar Index	Day's Change	Point	Yen Index	DM Index	Local Currency	US Dollar Index	Day's Change	Point	Yen Index	DM Index	Local Currency	Year Ago
Index	%	Start/End	Index	Index	vs. US\$	Index	%	Start/End	Index	Index	vs. US\$	Index
Australia (78)	217.59	-0.3	201.14	168.39	184.13	-0.1	4.12	218.21	202.94	170.28	181.35	184.22
Austria (24)	185.54	0.8	171.51	143.59	182.38	0.7	1.80	184.01	171.13	143.59	181.36	185.74
Belgium (28)	230.70	0.9	213.25	178.20	201.90	0.7	3.54	228.70	172.20	178.20	200.54	186.17
Canada (114)	237.48	-0.1	219.52	188.78	207.84	0.7	1.91	235.85	179.07	188.78	200.54	202.79
Denmark (32)	192.88	0.2	178.37	149.33	188.87	0.7	0.95	195.25	179.07	150.24	189.94	192.17
Finland (28)	383.24	-0.2	335.78	281.11	317.80	-0.4	1.52	364.03	338.59	294.05	318.22	318.29
France (21)	216.51	1.4	201.98	188.11	191.24	1.6	1.08	203.03	222.53	216.25	226.95	226.95
Germany (59)	188.48	1.1	183.48	153.59	173.69	0.9	1.35	188.21	182.48	153.10	172.06	172.06
Hong Kong (89)	455.67	0.3	421.22	382.64	398.78	0.3	0.41	454.32	422.93	384.00	388.38	401.88
India (27)	229.05	-1.1	211.73	177.29	200.48	0.3	0.28	231.94	200.48	188.78	200.48	200.48
Ireland (19)	323.95	0.8	298.48	250.71	283.52	0.7	0.38	321.79	288.85	250.71	283.52	283.52
Italy (59)	184.87	0.9	172.27	155.52	141.10	0.6	2.00	183.67	165.50	141.10	165.50	165.50
Japan (480)	118.50	1.8	107.69	93.16	101.98	1.0	0.87	114.10	106.98	93.16	100.31	106.98
Malaysia (107)	620.03	-1.2	573.15	478.84	542.03	0.7	0.82	573.15	478.84	542.03	542.03	542.03
Mexico (27)	1358.94	0.2	1284.28	1050.05	1187.32	0.0	1.12	1353.94	1259.19	1058.45	1187.32	1353.94
Netherlands (16)	342.74	2.4	316.62	282.24	298.85	2.1	2.61	347.78	311.38	281.21	283.58	280.11
New Zealand (14)	84.54	1.4	78.12	65.40	73.95	0.4	0.41	83.35	77.49	65.40	73.95	73.95
Norway (41)	305.38	1.6	282.30	238.34	267.27	0.7	0.80	282.30	238.34	267.27	267.27	267.27
Philippines (22)	194.82	-0.7	180.09	150.77	170.50	0.5	0.08	198.11	182.96	150.77	171.97	171.97
Singapore (43)	383.75	0.1	354.74	298.58	285.85	-1.5	0.68	383.75	302.09	298.58	285.85	285.85
South Africa (44)	360.90	0.1	333.61	279.30	215.95	0.2	0.28	360.56	355.42	281.41	216.28	216.28
Sweden (48)	210.84	0.1	184.00	163.17	184.52	0.0	0.78	210.85	195.89	184.52	184.52	184.52
Switzerland (28)	425.88	1.7	383.13	325.12	372.30	1.2	1.17	418.11	388.05	325.12	369.83	473.90
Taiwan (28)	251.80	0.6	235.58	194.71	220.19	0.8	0.38	250.18	225.63	194.71	218.34	234.22
United Kingdom (82)	223.26	0.8	212.78	181.84	200.48	0.7	0.70	223.26	200.48	181.84	200.48	200.48
United Kingdom (82)	273.22	0.6	258.56	211.44	239.11	25.56	-0.1	3.80	271.77	252.71	212.02	288.27
USA (59)	318.94	0.1	294.27	246.26	278.00	318.94	0.1	1.88	319.91	256.66	240.06	277.77
Australia (823)	261.42	0.1	268.38	225.83	256.04	248.57	0.1	1.58	291.25	270.85	228.08	258.18
Canada (27)	240.27	1.2	222.10	185.24	212.22	17.17	0.27	237.84	221.28	185.24	208.85	230.71
Europe (82)	135.90	1.3	122.62	106.17	118.93	104.17	0.7	1.39	134.20	124.81	104.17	117.06
Latin America (159)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
North America (159)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
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Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
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Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
Europe Excl. UK (519)	178.91	1.1	168.81	138.82	158.88	148.71	0.7	1.16	177.42	165.33	145.94	155.98
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